OJSC MAGNITOGORSK IRON & STEEL WORKS

(Organised as an open joint stock company under the laws of the Russian Federation)

Offering of 1,040,000,000 Ordinary Shares
in the form of Ordinary Shares and Global Depositary Receipts
Offer Price: U.S.$0.961538 per Ordinary Share and U.S.$12.50 per Global Depositary Receipt

This Prospectus relates to the offering (the "Offering") by (i) OJSC Magnitogorsk Iron & Steel Works ("MMK"), an open joint stock company registered under the laws of the Russian Federation, of 878,800,000 newly issued ordinary shares in the share capital of MMK with a nominal value of RUB 1 each ("Ordinary Shares") of MMK, in the form of global depositary receipts ("GDRs"), with each GDR representing 13 newly issued Ordinary Shares not subscribed by MMK's existing shareholders in the Open Subscription defined below and (ii) Mintha Holding Limited, a company organised and existing under the laws of Cyprus (the "Selling Shareholder"), of 161,200,000 Ordinary Shares.

This Offering comprises (i) an Offering of Ordinary Shares and GDRs outside the United States and the Russian Federation in reliance on Regulation S ("Regulation S") under the U.S. Securities Act of 1933, as amended (the "Securities Act"), (ii) an Offering of Ordinary Shares and GDRs within the United States to qualified institutional buyers ("QIBs") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A"), and (iii) an Offering of Ordinary Shares in the Russian Federation.

MMK has authorised 1,450,000,000 newly issued Ordinary Shares to be placed by an open subscription (the "Open Subscription"), including to MMK's existing shareholders as at 15 December 2006 pursuant to each such shareholder's rights to subscribe for newly issued Ordinary Shares under Russian law. The Selling Shareholder had committed to offer up to 2,864,364,858 Ordinary Shares.

In addition, the Selling Shareholder has granted ABN AMRO Bank N.V. and NM Rothschild and Sons Limited (together trading as ABN AMRO Rothschild), Morgan Stanley & Co. International plc and Renaissance Securities (Cyprus) Limited (together, the "Lead Managers"), an option exercisable within 30 days of the announcement of the offer price of the Offering to purchase up to 131,820,000 additional Ordinary Shares in the form of GDRs at the offer price, solely to cover Over-allotments, if any, in connection with the Offering (the "Over-allotment Option").

The Ordinary Shares and GDRs offered hereby are offered severally by the Managers (as defined in "Plan of Distribution"), subject to receipt and acceptance by them of, and subject to their right to reject, any order in whole or in part. The Managers expect to deliver the GDRs (i) to persons outside the United States and the Russian Federation pursuant to Regulation S through the facilities of Euroclear S.A./N.V. ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") and (ii) to QIBs in the United States pursuant to Rule 144A through the facilities of the Depository Trust Company ("DTC"), in each case on or about 27 April 2007 (the "Closing Date"). The Managers expect to deliver the Ordinary Shares through the clearing and depository facilities associated with the Russian Trading System ("RTS") and the Moscow Interbank Currency Exchange ("MICEX") on or about the Closing Date.

Neither the Ordinary Shares nor the GDRs offered in this Offering have been or will be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Ordinary Shares and the GDRs are subject to other selling and transfer restrictions in certain other jurisdictions. See "Plan of Distribution" and "Transfer Restrictions" beginning on pages 195 and 200, respectively, for further details on these restrictions.

The GDRs are specialised investments and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "Risk Factors" beginning on page 7 for a discussion of certain matters that prospective investors should consider prior to making an investment in the Ordinary Shares or the GDRs.

The Ordinary Shares offered in this Offering have been registered by the Federal Service for Financial Markets of the Russian Federation (the "FSFM"), under registration numbers 1-03-00078-A and 1-03-00078-A-002D. A statutory Russian prospectus for these Ordinary Shares was registered by the FSFM on 18 January 2007. The Ordinary Shares are listed on the quotation list "B" of the RTS and MICEX. Whilst such Ordinary Shares are currently listed on the RTS and MICEX, they are not actively traded. Prices for Ordinary Shares traded on the RTS and MICEX may not reflect the underlying value of the Ordinary Shares or of the GDRs after the Offering. Under Russian law, trading in the newly issued Ordinary Shares is not permitted until a notice on the results of their issue is filed with the FSFM.

Prior to this Offering, there has been no public market for the GDRs. Application has been made to the Financial Services Authority (the "FSA"), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA"), for the admission of up to 232,311,953 GDRs to the official list maintained by the FSA (the "Official List") and to the regulated main market (the "Market") of London Stock Exchange plc ("London Stock Exchange"), for admission of the GDRs to trading. Admission to the Official List maintained by the FSA together with admission to the regulated main market of the London Stock Exchange constitutes admission to official listing on a stock exchange ("Admission"). Application has been made to have the GDRs offered and sold within the United States in reliance on Rule 144A designated as eligible for trading in The PORTAL Market of the NASDAQ Stock Market, Inc. MMK expects that conditional trading through the International Order Book ("IOB") will commence on a "when and if issued" basis on or about 24 April 2007, and unconditional trading through the IOB will commence on or about 30 April 2007. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned**.

The GDRs offered pursuant to Regulation S will be evidenced by a master Regulation S GDR, which shall be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. The GDRs offered pursuant to Rule 144A will be evidenced by a master Rule 144A GDR, which shall be registered in the name of Cede & Co., as nominee for DTC in New York. The Ordinary Shares represented by the GDRs will be held by ING Bank (Eurasia) ZAO as custodian (the "Custodian"), for The Bank of New York (the "Depositary"). Except as described herein, beneficial interests in the master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. It is expected that delivery of the GDRs against payment therefor will be made at the closing of this Offering on or about the Closing Date through Euroclear and Clearstream, Luxembourg with respect to the GDRs offered pursuant to Regulation S and through DTC with respect to the GDRs offered pursuant to Rule 144A.

Joint Global Co-ordinators, Joint Bookrunners and Joint Lead Managers

ABN AMRO Rothschild **Morgan Stanley** **Renaissance Capital**

Co-Lead Manager

Gazprombank

The date of this Prospectus is 24 April 2007

This Prospectus, including the financial information included herein, comprises a prospectus given in compliance with the prospectus rules made under Section 73A of the FSMA by the FSA (the "Prospectus Rules") for the purpose of giving information with regard to MMK, MMK and its consolidated subsidiaries (together, the "MMK Group") and the GDRs in connection with the application for admission of the GDRs to the Official List and to trading on the Market.

MMK accepts responsibility for the contents of this Prospectus. MMK declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Prospectus is being furnished by MMK and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the Ordinary Shares or the GDRs. No representation or warranty, express or implied, is made, nor any responsibility assumed, by any Manager or any of its affiliates or advisers as to the accuracy or completeness of any information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any Manager or any of its affiliates or advisers as to the past or the future. Any reproduction or distribution of this Prospectus, in whole or in part, is prohibited. In addition, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Ordinary Shares or the GDRs is prohibited, except to the extent that such information is otherwise publicly available. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing.

The Managers are acting exclusively for MMK and the Selling Shareholder and no one else in connection with this Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this Offering.

This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire the Ordinary Shares or the GDRs. In making an investment decision, prospective investors should rely on their own investigation and analysis of MMK, the MMK Group, and their own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such prospective investors in connection with an investment in the Ordinary Shares and the GDRs. Any decision to buy the Ordinary Shares or the GDRs should be based solely on the information contained in this Prospectus. No person has been authorised to give any information or to make any representations in connection with this Offering other than those contained in this Prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by MMK, the Selling Shareholder or the Managers, any of their respective affiliates, advisers or selling agents or any other person. At any time following the date of this Prospectus, the information contained in this Prospectus may no longer be correct and the MMK Group's business, financial condition or results of operations may have changed.

No representation is made by MMK, the Selling Shareholder or the Managers or any of its or their respective representatives to prospective investors as to the legality of an investment in the Ordinary Shares or the GDRs. Prospective investors should not construe anything in this Prospectus as legal, business, financial, investment, tax or related advice. Prospective investors should consult their own advisers as to the legal, business, financial, investment, tax and related aspects of an investment in the Ordinary Shares or the GDRs.

The distribution of this Prospectus and this Offering of Ordinary Shares or GDRs may, in certain jurisdictions, be restricted by law and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Prospectus comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. Neither MMK, the Selling Shareholder, nor any of the Managers accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

MMK, the Selling Shareholder and the Managers each reserve the right to reject any offer to purchase the Ordinary Shares or GDRs in whole or in part and to sell to any prospective investor less than the full amount of Ordinary Shares or GDRs sought by such prospective investor.

No action has been or will be taken in any jurisdiction, except for the registration of a prospectus in the Russian Federation in respect of the Ordinary Shares, and the approval of this Prospectus by the FSA in the United Kingdom in respect of the GDRs, that would permit a public offering of the Ordinary Shares or the GDRs or the possession, circulation or distribution of this Prospectus or any other material relating to MMK, the Ordinary Shares or the GDRs in any jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares and the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Ordinary Shares or the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction.

In connection with this Offering, each of the Managers and any affiliate acting as an investor for its own account may purchase the Ordinary Shares or the GDRs and in that capacity may retain, purchase or sell for its own account such securities and any of MMK's securities or related investments and may offer or sell such securities or other investments otherwise than in connection with this Offering. Accordingly, references in this Prospectus to the Ordinary Shares and the GDRs being offered or placed should be understood as including any offering or placement of securities to the Managers and any affiliate acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE ORDINARY SHARES OR THE GDRs OR DETERMINED WHETHER THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with this Offering, Morgan Stanley & Co. International plc, as stabilising manager (the "Stabilising Manager"), or its agents may, and for a limited period after the announcement of the offer price, over-allot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilising Manager or such agents have no obligation to do so. Such stabilisation, if commenced, may begin on the date of adequate public disclosure of the offer price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 calendar days after the date of such adequate public disclosure of the offer price. The Managers do not intend to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with this Offering, the Managers may over-allot GDRs as permitted by applicable law. For the purposes of allowing the Managers to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by them during the stabilising period, the Selling Shareholder has granted the Managers the Over-allotment Option, pursuant to which the Lead Managers may require the Selling Shareholder to sell additional Ordinary Shares to be issued by the Depositary as GDRs at the offer price. The Over-allotment Option is exercisable in whole or in part upon written notice by the Lead Managers on one or more occasions, any time on or before the thirtieth calendar day after adequate public disclosure of the offer price has been made. Any GDRs made available pursuant to the Over-allotment Option will be issued on the same price, terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Prospectus has been prepared on the basis that all offers of Ordinary Shares or GDRs, other than the offers of GDRs contemplated in this Prospectus in the United Kingdom once the Prospectus has been approved by the FSA and published in accordance with Directive 2003/71/EC (the "Prospectus Directive") as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the Member States of the European Economic Area (the "EEA"), from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of the Ordinary Shares or the GDRs should only do so in circumstances under which no obligation arises for MMK or any of the Managers to produce a prospectus for such offer. Neither MMK nor the Managers have authorised, or will authorise, the making of any offer of the Ordinary Shares or the GDRs through any financial intermediary, other than offers made by the Managers which constitute the final placement of the Ordinary Shares or GDRs contemplated in this Prospectus.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (a "Relevant Member State"), other than, in the case of (a) below, persons receiving offers contemplated in this Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any Ordinary Shares or GDRs under, the Offering contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and MMK that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Ordinary Shares or GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

  (i) the Ordinary Shares or GDRs acquired by it in this Offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or

  (ii) where the Ordinary Shares or the GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Ordinary Shares or GDRs is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to the Ordinary Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Ordinary Shares or GDRs so as to enable an investor to decide to purchase the Ordinary Shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

This Prospectus should not be considered as a public offer or advertisement of GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been registered with the Federal Service for Financial Markets of the Russian Federation and are not intended for "placement" or "public circulation" in the Russian Federation. Any information on the GDRs in this Prospectus is intended for, and addressed to, persons outside of the Russian Federation.

The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

None of the Ordinary Shares or the GDRs offered in this Offering has been or will be registered under the Securities Act, or with any securities authority of any state of the United States, and the Ordinary Shares and the GDRs may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws.

The Ordinary Shares and the GDRs are only being offered pursuant to exemptions from, or in transactions not subject to, registration under the Securities Act, including (i) in the United States only to "qualified institutional buyers", or "QIBs" (as defined in Rule 144A), in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (ii) outside the United States only in offshore transactions, as defined in, and in accordance with, Regulation S. **Prospective investors are hereby notified that sellers of the GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act, provided by Rule 144A or another exemption thereunder**. For certain restrictions on sales and transfers of the Ordinary Shares and the GDRs, see "Plan of Distribution" and "Transfer Restrictions".

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

So long as any Ordinary Shares or GDRs representing the Ordinary Shares of MMK are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, MMK will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such restricted securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

In such cases, MMK will also furnish to holders or beneficial owners of GDRs all notices of shareholders' meetings and other reports and communications that are generally available to the shareholders of MMK.

ENFORCEMENT OF CIVIL LIABILITIES

MMK is an open joint stock company incorporated under the laws of the Russian Federation and, as of the date of this Prospectus, the majority of the members of its Board of Directors and all of the members of its Management Board are not residents of the United Kingdom or the United States. The Selling Shareholder is a limited liability company incorporated under the laws of Cyprus, and none of the members of its Board of Directors is a resident of the United Kingdom or the United States. As a result, it may not be possible for holders of Ordinary Shares or GDRs to:

- effect service of process within the United Kingdom or the United States upon MMK or members of its Board of Directors or Management Board;
- effect service of process within the United Kingdom or the United States upon the Selling Shareholder or any members of its Board of Directors; or
- enforce against most of such persons judgments obtained in the courts of the United Kingdom or the United States.

Russian courts may not enforce any judgment obtained in a court in a country other than the Russian Federation unless:

- there is a treaty in effect between such country and the Russian Federation providing for the recognition and enforcement of court judgments; and
- the Russian Federation adopts a federal law providing for the recognition and enforcement of foreign court judgments.

No such treaty exists between the Russian Federation and the United Kingdom or the United States. Even if there were such a treaty, Russian courts could nonetheless refuse to recognise or enforce a foreign court judgment on the grounds set forth in such treaty and in Russian law in effect on the date on which such recognition or enforcement is sought. Moreover, the Russian Federation has adopted no such federal law.

In September 2002, the new Arbitration Procedural Code of the Russian Federation entered into force, setting forth procedures for the recognition and enforcement of judgments and grounds for refusal of such recognition and enforcement in the event that such a treaty or federal law were adopted. However, Russian procedural law may change further, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future.

The deposit agreement relating to the GDRs dated 14 December 2006 between the Depositary and MMK (the "Deposit Agreement") provides that actions brought by any holder or beneficial owners of GDRs may be referred to arbitration in London in accordance with the rules of the London Court of International Arbitration ("LCIA"). Each of the United Kingdom, the United States and the Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and law. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of Russian courts in enforcing international commercial arbitral awards;
- official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors;
- the Russian courts' inability or unwillingness to enforce such orders; and
- legal grounds (for example, the concept of "public order") and/or technical grounds (for example, the lack of capacity of the parties or the invalidity of an arbitration clause).

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "anticipates", "assumes", "believes", "could", "estimates", "expects", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" and similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans or expectations regarding the MMK Group's business and management, the MMK Group's future growth or profitability, and general economic and regulatory conditions and other matters affecting the MMK Group.

Forward-looking statements reflect MMK's current views of future events, are based on MMK's assumptions and involve known and unknown risks, uncertainties and other factors that may cause the MMK Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the MMK Group's actual financial condition and results to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. The MMK Group's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include:

- changes in political, social, legal or economic conditions in the Russian Federation;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the relevant ministries and state agencies;
- the prices of the MMK Group's steel products and the prices and availability of the raw materials which the MMK Group requires;
- tariffs and other restrictions on the import or export of steel or raw materials;
- the costs of energy and transportation and the continued availability of raw materials;
- the MMK Group's ability to fund its future operations and capital needs through borrowing or otherwise;

- the MMK Group's ability to successfully implement its business strategies;
- the MMK Group's ability to integrate any acquired businesses, and to realise anticipated cost savings and operational benefits from such integration;
- a decrease in demand for the MMK Group's products;
- the MMK Group's ability to obtain and maintain the licences necessary for its businesses;
- the effects of competition;
- the effects of international political events;
- inflation, interest rate and exchange rate fluctuations;
- the MMK Group's success in identifying other risks to its businesses and managing the risks of the aforementioned factors; and
- other factors set forth in the "Risk Factors" section of this Prospectus.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the MMK Group operates. Such forward-looking statements speak only as of the date on which they are made.

Accordingly, investors should not rely on the forward-looking statements in this Prospectus and investors are strongly advised to read the following sections of this Prospectus: "Summary", "Risk Factors", "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Industry" and "Business". These sections include more detailed descriptions of factors that might have an impact on the MMK Group's business and on the steel industry generally. None of MMK, its management or the Managers can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments. Neither MMK nor the Managers assume, and each of MMK and the Managers expressly disclaims, any obligation, except as required by law, the London Stock Exchange or the FSA, to update any forward-looking statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The MMK Group's consolidated financial statements as at and for the three years ended 31 December 2004, 2005 and 2006 and the notes thereto (together, the "Financial Statements") have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

The MMK Group changed its auditors in 2006. The financial statements for the 2004 financial year (the "2004 Financial Statements") and the 2005 financial year (the "2005 Financial Statements" and, together with the 2004 Financial Statements, the "2004/2005 Financial Statements") were audited by KPMG Limited and the financial statements for the 2006 financial year (the "2006 Financial Statements") were audited by ZAO Deloitte & Touche CIS. This Prospectus presents financial information for the 2004, 2005 and 2006 financial years in the presentational format of the 2006 Financial Statements, which differs from that of the 2004/2005 Financial Statements only in the naming and classification of certain line items, all of which has been indicated by way of footnotes to the financial data derived from the 2004/2005 Financial Statements set forth in this Prospectus.

Unless otherwise indicated, financial information, results of operations and other related information included in this Prospectus is of the MMK Group.

Non-GAAP Measures

This Prospectus contains references to certain non-GAAP measures, including EBITDA, adjusted EBITDA and net debt. A full list of these measures, and the method used by MMK to calculate them, is set out in "Selected Historical Consolidated Financial and Other Information". These measures have been presented as MMK believes that they are measures frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry.

The primary non-GAAP measures used by MMK are EBITDA and adjusted EBITDA, which are presented as supplemental measures of the MMK Group's operating performance as MMK believes they provide an analysis of the MMK Group's operating results excluding items that are non-recurring or unusual in nature and, additionally, that they are measures frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry. EBITDA, adjusted EBITDA and the other measures referred to above are not presentations made in accordance with U.S. GAAP and MMK's use of such terms may vary from others in the industry. EBITDA, adjusted EBITDA and the other measures referred to above should not be considered as alternatives to net income (loss), operating income or any other performance measures derived in accordance with U.S. GAAP, as measures of operating performance or operating cash flows or as a measure of liquidity. EBITDA, adjusted EBITDA and such other measures have limitations as analytical tools, and investors should not consider these measures in isolation or as a substitute for an analysis of the MMK Group's operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- EBITDA and adjusted EBITDA do not reflect the impact of financing costs, which can be significant and could further increase if the MMK Group incurs more debt, on the MMK Group's operating performance;
- EBITDA and adjusted EBITDA do not reflect the impact of income taxes on the MMK Group's operating performance; and
- EBITDA and adjusted EBITDA do not reflect the impact of depreciation and amortisation on the MMK Group's operating performance. The assets of the MMK Group's businesses which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense, EBITDA and adjusted EBITDA do not reflect the MMK Group's future cash requirements for these replacements. Adjusted EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.

The financial information included in this Prospectus is not intended to comply with reporting requirements of the U.S. Securities and Exchange Commission. Compliance with such requirements would require presentation of additional financial information prepared on the basis of U.S. GAAP and the modification or exclusion of certain financial measures, including the exclusion of adjusted EBITDA and net debt (each as defined herein).

Currencies

In this Prospectus:

- "Russian rouble", "Russian roubles", "roubles" or "RUB" refers to the lawful currency of the Russian Federation;
- "U.S. dollar", "U.S. dollars", "U.S.$" or "USD" refers to the lawful currency of the United States of America;
- "£" refers to the lawful currency of the United Kingdom;
- "euro", "EUR" or "€" refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; and
- "Swiss franc", "Swiss francs" or "CHF" refers to the lawful currency of the Swiss Confederation.

Rounding

Rounding adjustments have been made in calculating some of the financial information included in this Prospectus. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Operating Data

All data relating to MMK's and the MMK Group's production and operations, such as volumes of production, production capacity and certain sales information presented by sector, geography and product, cited in "Business", and as cited specifically elsewhere in this Prospectus, were derived from management accounts and information, which were neither reviewed nor audited by ZAO Deloitte & Touche CIS or KPMG Limited, the current and former independent auditors of the MMK Group, respectively, for the three years ended 31 December 2004, 2005 and 2006, or by any other independent auditor.

Unless otherwise indicated, comparative market share data, product information, property, plant and equipment information and other related information included in this Prospectus is of MMK.

Reserves Estimates

The estimates contained in this Prospectus concerning the reserves of coal, iron ore and limestone deposits in which the MMK Group has an interest are subject to considerable uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in the future. In addition, these reserve estimates have been determined in accordance with standards commonly used in Russia, which differ from the Australasian Joint Ore Reserves Committee Code ("JORC") and those used in the United States pursuant to the SEC's rules and regulations. Moreover, actual production results may differ significantly from reserves estimates.

Market References

References to the MMK Group's "domestic" market include the Russian Federation and the countries of the Commonwealth of Independent States (the "CIS"), unless otherwise specified. References to the MMK Group's "export" market are to the rest of the world not including the Russian Federation or the CIS countries.

Convenience Translations

This Prospectus contains conversions of certain amounts of Russian roubles into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, the U.S. dollar amounts have been translated from the Russian rouble amounts at the rate of RUR 26.33 = U.S.$1.00, which was the rate published by the Central Bank of Russia ("CBR") on 31 December 2006.

No representation is made that the Russian rouble or U.S. dollar amounts referred to in this Prospectus could have been or could be converted into Russian roubles or U.S. dollars, as the case may be, at the above exchange rates or at all.

INFORMATION DERIVED FROM THIRD PARTIES

MMK has obtained certain statistical and market information that is presented in this Prospectus on such topics as the Russian steel industry, the Russian economy in general and related subjects from the following third-party sources:

- *AIST.* The Association for Iron and Steel ("AIST") was established on 1 January 2004 with the goal of advancing the technical development, production, processing and application of iron and steel. It comprises two long-standing industry associations in the United States: the Association of Iron and Steel Engineers and the Iron & Steel Society.
- *AME Mineral Economics.* AME Mineral Economics is a global firm of independent analysts and economists in the metal and mineral industries with research offices in Australia and affiliations in North America, South America, Africa and China.
- *Avtoselkhozmash-Holding.* Avtoselkhozmash-Holding Joint Stock Company is a company involved with the representation and promotion of Russian manufacturers and sellers of motor vehicles, agricultural machinery and associated components; the analysis and production of statistics for the Russian automotive industry; the staging of exhibitions; and the publication of automotive trade journals.
- *Chermet Corporation.* The Chermet Corporation ("Chermet") is a Russian company that provides and publishes information, statistics and analytic surveys relating to producers of ferrous metals.
- *CRU International.* CRU International is an independent, privately owned business analysis and consultancy group focused on the mining, metals, power, cables, fertiliser and chemical sectors. The group employs more than 200 experts in London, Beijing, Santiago, Sydney and key centres within the United States.
- *Eurofer.* Eurofer is the European Confederation of Iron and Steel Industries. Founded in 1976 and located in Brussels, Eurofer is active in matters relating to the development of the European steel industry and the representation of the common interests of its members.
- *International Iron and Steel Institute.* The International Iron and Steel Institute ("IISI") is one of the largest industry associations in the world. IISI's members include more than 190 steel producers (including the world's 20 largest steel companies), national and regional steel industry associations, and steel research institutes. IISI members produce approximately 60 per cent. of the world's steel.
- *Iron and Steel Statistics Bureau.* The Iron and Steel Statistics Bureau ("ISSB") is an organisation that offers a wide range of publications and custom reports covering UK, European and global trade in steel and raw materials.
- *Metal Bulletin.* Metal Bulletin plc is an independent company quoted on the London Stock Exchange. It provides news, prices, analysis and research to financial, metals, minerals, energy and other commodity markets through online services and print media.
- *Metall-Courier.* Metall-Courier is a weekly information service covering the production and trade of (i) ferrous scrap, pig iron, ferroalloys, iron ore and coke; (ii) semi-finished steel products, long steel products and flat steel products, including coated steel; and (iii) special steel, steel pipes and wire products, in Russia, Ukraine, Belarus, Kazakhstan and other former USSR countries.
- *Metall Expert.* Metall Expert is an independent provider of news, price quotations, statistics and analysis on the steel and raw materials markets of the CIS, comprising a team of journalists, observers, analysts and consultants. Metall Expert is a part of Metall-Courier Publications and is based in Dnepropetrovsk, Ukraine, with a representative office in Moscow.
- *MetallPress.ru.* MetallPress.ru is a news and information agency comprising a team of industry experts, consultants, analysts and journalists in the area of metallurgy and related industry sectors.
- *Prometiz Association.* The Prometiz Association is a Russian entity that co-ordinates operations of metalware producers in Russia and that, in particular, provides and publishes information, statistics and analytical research related to metalware producers.
- *World Steel Dynamics.* World Steel Dynamics ("WSD") is a global steel information service. WSD's international clients include major integrated and non-integrated steel companies, steel users, equipment and raw materials suppliers, financial institutions, government agencies, steel service centres and trade associations.

This third-party information is presented in the following sections of this Prospectus: "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Industry" and "Business".

MMK has accurately reproduced such information and, as far as MMK is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that MMK's estimates relating to market and industry information are based on such third-party information. None of MMK, the Selling Shareholder or the Managers has independently verified the figures, market data or other information on which third parties have based their studies.

MMK has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information, such as annual reports of competitors, as well as the third-party sources described above, and has accurately reproduced such information and, as far as MMK is aware and is able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. MMK has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this document has been derived from official data of Russian government agencies and the Central Bank of Russia (the "CBR"). The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of more developed countries. Official statistics, including those produced by the CBR, may also be produced on different bases from those used in more developed countries. Any discussion of matters relating to the Russian Federation in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The contents of the MMK Group's website do not form any part of this Prospectus.

TABLE OF CONTENTS

SUMMARY

This summary should be read as an introduction to this Prospectus and any decision to invest in the Ordinary Shares or GDRs offered in this Offering should be based on consideration of the Prospectus as a whole. Under the national legislation of the individual Member States of the EEA, if a claim relating to the information contained in this Prospectus is brought as a legal proceeding before a court, the investor who is the plaintiff in the legal proceeding may have to bear the costs of translating this Prospectus prior to initiation of the legal proceeding. Civil liability attaches to the persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the plaintiff may, under the national laws of the member state where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

The MMK Group

OJSC Magnitogorsk Iron & Steel Works is one of the top three steel producers in Russia by sales and volumes of crude steel produced in 2006, according to data published by Chermet. MMK believes that it has the broadest product range of any Russian steel producer, and is one of the leading steel producers in the Russian Federation in the production of certain types of value-added steel products, such as polymer coated steel, galvanised steel and tin-plate, based on data published by Chermet. MMK believes that the MMK Group's (i) focus on the production of steel and increasing emphasis on the delivery of value-added steel products, (ii) strong position in the attractive Russian steel market, (iii) low cost and efficient production, (iv) experienced management team and highly trained workforce and (v) investment in plant and equipment are the primary factors that have driven the improvement in its net revenue from U.S.$4,829 million in 2004 to U.S.$6,424 million in 2006 and driven its adjusted EBITDA from U.S.$1,735 million to U.S.$2,005 million over the same period.

In recent years, the MMK Group has increased its strategic focus on the Russian and CIS markets, generating 62 per cent. of its net revenues from sales within Russia and the CIS for the year ended 31 December 2006 compared with 55 per cent. in 2004, and MMK intends to further increase the proportion of the MMK Group's domestic sales, with a particular focus on value-added steel products, such as cold-rolled steel and downstream steel products. According to Chermet, based on 2006 production, the MMK Group is one of the largest Russian producers of downstream steel products (a category of products which includes polymer coated steel, galvanised steel, tin-plate, high-quality cold-rolled band and formed sections). During the year ended 31 December 2006, the MMK Group generated 38 per cent. of its net revenues from sales to its export markets, in particular those in the Middle East, Europe, Asia and North America.

MMK also believes that the MMK Group's strong position in the Russian domestic market and its focus on value-added steel products leave it well-placed to benefit from high-growth sectors of the Russian market, such as the pipe-making, automotive and construction industries. For example, recently announced major pipeline projects and plans by foreign automobile companies to build plants in Russia are expected to increase the domestic demand for certain of the value-added steel products currently produced by MMK. In particular, MMK believes that the MMK Group will benefit from the relationships it has been able to establish with a number of domestically based steel consumers, such as with members of the TMK Group in the pipe-making industry and with pipe-makers such as the UMC Group and the Chelyabinsk Pipe-Rolling Mill Group and automotive plants such as Avtovaz and GAZ. MMK also intends to continue to look for specific opportunities to further expand the MMK Group's existing customer base. In addition, MMK believes that the MMK Group benefits from a well-diversified Russian customer base with very little customer concentration. In 2006, no single customer (excluding subsidiary traders) accounted for more than 5 per cent. of the MMK Group's total revenues.

Based on preliminary data for 2006 published by WSD, MMK believes that the MMK Group's production cost per metric ton of hot-rolled coil was one of the lowest among major steel producers. At the end of the 1980s, the MMK Group implemented its modernisation and investment programme, originally scheduled to run until 2010 and now extended to 2013, which was intended to modernise the MMK Group's production facilities and enable it to enhance the downstream processing of steel and continue to improve the quality and diversity of its products. Since 1996, the MMK Group has invested in excess of U.S.$3.2 billion in the modernisation and investment programme and its subsequent investment programmes, creating what MMK believes to be one of the most modern and efficient steel production facilities in the Russian Federation. MMK believes that these investment programmes have been and remain crucial to the MMK Group's ability to compete in the steel production market. MMK's management expects to continue to make significant capital investments and expenditures going forward.

MMK's management believes that the MMK Group's highly skilled employees are some of the best-trained and most well-paid in the Russian steel industry and it is committed to the continued education and training of employees. The MMK Group had an average of 55,572 employees in 2006 compared with an average of 57,815 employees for 2005. In 2006, the average salary of an MMK employee was RUB 19,852 (U.S.$754) per month and MMK's management expects this average to increase in 2007 by approximately 25 per cent. from the 2006 level.

The MMK Group's net income for the year ended 31 December 2006 was U.S.$1,426 million, compared to U.S.$947 million for the year ended 31 December 2005 and U.S.$1,232 million for the year ended 31 December 2004. For the year ended 31 December 2006, MMK's annual output of crude steel amounted to 12.5 million metric tons. This was an increase on the output of 11.4 million metric tons during 2005 and 11.3 million metric tons during 2004. MMK estimates that it is capable of producing up to 14.1 million metric tons of crude steel a year with its current facilities and workforce. MMK aims to increase production capacity to up to 15.0 million metric tons of commercial steel products per year by 2013 through its modernisation and investment programme. MMK sold (including sales to its subsidiary traders) 11.3 million metric tons of commercial steel products in 2006 (10.2 million metric tons in 2005 and 10.1 million metric tons in 2004).

Competitive Strengths

MMK believes that the MMK Group benefits from the following strengths:

- Focus on the production of steel products.
- Well positioned in the growing Russian and CIS markets.
- Broad product range with a focus on value-added steel products.
- Strong position to benefit from growth in the Russian pipe manufacturing industry.
- Well-invested, low-cost production facilities.
- Experienced management team and high quality workforce.
- Sophisticated management information systems.

Strategy

MMK's key strategic goals are to maintain the long-term competitive position of the MMK Group in the global steel market and to increase MMK's value to its shareholders. MMK intends to pursue these goals through the following strategies:

- Focus on the Russian and CIS markets and selectively pursue strategic opportunities internationally.
- Increase volume and proportion of high value-added steel products.
- Continue to pursue its modernisation and investment programme.
- Secure long-term raw materials and energy supplies.
- Pursue high standards of corporate citizenship and governance.

Summary Consolidated Financial Information

The table below shows the MMK Group's summary historical consolidated financial information as at and for the years ended 31 December 2004, 2005 and 2006, which has been derived from the Financial Statements included elsewhere in this Prospectus and should be read in conjunction with "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". The MMK Group's consolidated financial statements have been prepared in accordance with U.S. GAAP.

	Year ended 31 December		
	2004	2005	2006
	(Amounts in millions of U.S. dollars, except per share data)		
Consolidated statement of operations data			
Net revenue(1)	4,829	5,380	6,424
Cost of products sold (exclusive of depreciation and amortisation)	(2,712)	(3,274)	(3,619)
Income from operating activities	1,538	1,323	1,765
Income before income tax and minority interest(2)	1,621	1,317	1,895
Net income	1,232	947	1,426
Basic and diluted earnings per common share	0.125	0.095	0.140
Consolidated cash flows data			
Net cash provided by operating activities	1,010	1,255	1,077
Net cash used in investing activities	(713)	(412)	(1,080)
Net cash provided by/(used in) financing activities	743	(1,587)	(779)
Other measures(3)			
EBITDA	1,786	1,459	2,076
Adjusted EBITDA	1,735	1,511	2,005
Gross profit	1,971	1,947	2,636

	As at 31 December		
	2004	2005	2006
	(Amounts in millions of U.S. dollars)		
Consolidated balance sheet data			
Cash and cash equivalents	1,884	1,138	338
Total assets	5,416	4,854	5,689
Total debt (long-term and short-term)(4)	1,235	639	1,006
Total liabilities	1,677	1,166	1,650
Total shareholders' equity(5)	3,728	3,677	4,027

Notes:

(1) This line item is referred to as "Gross revenue" in the 2004/2005 Financial Statements.

(2) This line item is referred to as "Income before tax and minority interest" in the 2004/2005 Financial Statements.

(3) See "Selected Historical Consolidated Financial and Other Information" for a discussion of these measures, including EBITDA and adjusted EBITDA which are non-GAAP measures.

(4) The MMK Group defines total debt as at 31 December 2006 as short-term borrowings, long-term debt including current portion, long-term capital lease obligations including current portion, and short-term bank overdrafts and as at 31 December 2005 and 2004 as short-term borrowings and long-term debt (inclusive of capital lease obligations), including current portion, each as at the end of the relevant period.

(5) This line item is referred to as "Total stockholders' equity" in the 2004/2005 Financial Statements.

Summary production and sales information

The table below shows the production volume of MMK's principal raw materials and products for the periods indicated:

	Year ended 31 December		
	2004	2005	2006
	(in thousands of metric tons)		
Iron ore	1,498	1,528	1,468
Sinter	10,361	10,343	10,750
Coke (6% moist)	5,872	5,576	5,496
Pig iron	9,645	9,655	9,733
Crude steel	11,281	11,385	12,455
Steel products (as cast)	10,607	11,019	12,060
Commercial steel products (as further processed and shipped, including to subsidiary traders)	10,137	10,201	11,346

The table below shows information on the sales volume (as shipped, including to subsidiary traders) of MMK's commercial steel products by type and market for the periods indicated:

	Year ended 31 December					
	2004		2005		2006	
	(in thousands of metric tons, except for percentages)					
Billets and slabs	**722**	**7.1%**	**425**	**4.2%**	**332**	**2.9%**
Russia and CIS market	24	0.2%	7	0.1%	2	—
Export	698	6.9%	418	4.1%	330	2.9%
Long products	**1,174**	**11.6%**	**1,098**	**10.8%**	**1,706**	**15.0%**
Russia and CIS market	1,060	10.5%	1,005	9.9%	1,545	13.6%
Export	114	1.1%	93	0.9%	161	1.4%
Flat products(1)	**6,593**	**65.0%**	**7,136**	**70.0%**	**7,729**	**68.1%**
Russia and CIS market	2,798	27.6%	2,928	28.7%	3,305	29.1%
Export	3,795	37.4%	4,208	41.3%	4,424	39.0%
Downstream products	**1,647**	**16.2%**	**1,542**	**15.1%**	**1,579**	**13.9%**
Russia and CIS market	1,121	11.1%	1,172	11.5%	1,219	10.7%
Export	526	5.2%	370	3.6%	360	3.2%
Total(2)	**10,137**	**100%**	**10,201**	**100%**	**11,346**	**100%**
Russia and CIS market	5,003	49.4%	5,112	50.1%	6,071	53.5%
Export	5,133	50.6%	5,088	49.9%	5,275	46.5%

Notes:

(1) Flat products comprise hot-rolled coils (5,262 thousand metric tons, 5,438 thousand metric tons and 6,095 thousand metric tons in 2004, 2005 and 2006, respectively) and cold-rolled coils (1,331 thousand metric tons, 1,698 thousand metric tons and 1,634 thousand metric tons in 2004, 2005 and 2006, respectively).

(2) Totals may not add due to rounding.

Risk Factors

An investment in the Ordinary Shares or GDRs is subject to risks relating to the MMK Group's business and industry, economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the Ordinary Shares and GDRs and the markets upon which they are expected to be traded, including risks associated with the following matters:

- the availability of supplies and costs of the raw materials and energy that the MMK Group requires;
- the cyclical nature of the demand and prices for the MMK Group's steel products;
- the ability of the MMK Group to complete capital expenditure programmes successfully, on time and within budget;
- the ability of the MMK Group to successfully integrate any acquired entities into the MMK Group;
- the imposition of trade barriers or duties on the MMK Group's steel products;
- the highly competitive nature of the steel industry;

- the maintenance of the MMK Group's principal licences;
- potential economic or political instability in Russia;
- weaknesses in the Russian legal system;
- the uncertain scope and application of existing and new Russian tax laws and regulations;
- the ability of MMK's controlling shareholder, Mr Victor Rashnikov, who is also the Chairman of MMK's Board of Directors and President of OOO MMK Managing Company, to exert significant influence over the MMK Group;
- the Russian corporate governance code is not of the same standard as corporate governance requirements in the European Union;
- the limited protection afforded to minority shareholders under Russian law;
- the ability of holders of GDRs to exercise the rights attached to the underlying Ordinary Shares;
- the ability to deposit shares into the GDR programme to receive GDRs; and
- the possibility that a liquid or active market for the Ordinary Shares or GDRs may not develop and that their prices may be highly volatile.

Regulatory Matters

The MMK Group's business operations are subject to regulation by the Russian authorities on a number of matters, including licensing, exports of products and imports of supplies, environmental use and protection, employee health and safety and competition. The MMK Group is also subject to various international tariffs and other duties on its steel products.

Organisational Structure and Management

MMK is the parent company of the MMK Group and manages the operations of the MMK Group. The Board of Directors of MMK consists of 10 members, and carries out the general management of MMK's business. The functions of the general director of MMK have been delegated to OOO MMK Managing Company, represented by its president, Mr Victor Rashnikov, which is responsible for the day-to-day management of MMK, along with MMK's Management Board.

The current auditors of MMK are ZAO Deloitte & Touche CIS.

As at 31 December 2006, the MMK Group consisted of MMK and 57 subsidiary companies. The principal activity of the MMK Group is the manufacture of steel and the sale of steel products. The MMK Group also operates a variety of support and ancillary activities through a network of directly- or indirectly-held subsidiaries and affiliates. The majority of these subsidiaries and affiliates are located in or near to the head office of the MMK Group in Magnitogorsk.

Share Capital

Immediately prior to this Offering, MMK's authorised and issued share capital of RUB 10,630,221,600 consisted of 10,630,221,600 Ordinary Shares, each with a par value of RUB 1. MMK also has 27,342,444,000 authorised but unissued Ordinary Shares out of which 1,450,000,000 have been authorised for issuance pursuant to the Open Subscription. MMK's Ordinary Shares are currently traded on the RTS and MICEX.

Dividend Policy and Dividend History

MMK's current dividend policy is designed to balance the interests of MMK's shareholders and other investors, whilst ensuring that any requirements for the further development and technical upgrading of the MMK Group's facilities can be financed from operating profits and borrowings.

MMK currently intends, subject to its net profits, to declare dividends amounting to not less than 15 per cent. of its consolidated net profit calculated on the basis of U.S. GAAP, taking into account any financing requirements for the further development of the MMK Group's facilities.

MMK paid aggregate dividends of U.S.$1,077 million during the year ended 31 December 2006, U.S.$947 million during the year ended 31 December 2005 and U.S.$14 million during the year ended 31 December 2004.

Summary of the Offering and Use of Proceeds

MMK has authorised 1,450,000,000 newly-issued Ordinary Shares to be placed in the Open Subscription, including to MMK's existing shareholders as at 15 December 2006 pursuant to each such shareholders' rights to subscribe for newly-issued Ordinary Shares under Russian law. In addition, the Selling Shareholder has committed to offer up to 2,864,364,858 Ordinary Shares for sale. The Ordinary Shares of the Selling Shareholder are beneficially owned by Mr Victor Rashnikov. The Closing Date for the sale of GDRs in the Offering is expected to be on or about 27 April 2007. As a result of the offering of GDRs by MMK, and the offering of newly issued Ordinary Shares as part of the Open Subscription, there will be an immediate dilution in the MMK Group's net assets per Ordinary Share of U.S.$0.53 to new investors who purchase Ordinary Shares, including in the form of GDRs.

MMK is expected to receive gross proceeds of U.S.$999,999,925.60 from the Offering and the Open Subscription. After the payment of fees and expenses associated with the Offering (such as the fees and expenses of the Managers, legal counsel and the auditors, as well as road show, printing and other expenses), the net proceeds of the Offering and the Open Subscription available to MMK are expected to be approximately U.S.$976 million.

The Selling Shareholder intends to use all of the proceeds received by it (not including proceeds (if any) relating to the Over-allotment Option) to subscribe for newly issued Ordinary Shares in the Open Subscription, making payment for such Ordinary Shares within five business days of the announcement of the offer price for the Offering.

MMK intends to use the aggregate net proceeds received from the Offering and the Open Subscription for capital investments to be made as part of MMK's modernisation and investment programme and other general corporate purposes.

Additional Information

Copies of the charter of MMK and other documents required by applicable law and regulation to be put on display may be inspected at the offices of Linklaters, One Silk Street, London EC2Y 8HQ, during usual business hours.

Recent Developments

On 30 March 2007, the General Shareholders' Meeting of MMK announced dividends in respect of the fourth quarter of 2006 in the amount of RUB 0.891 (U.S.$0.034) per share, for a total amount of U.S.$364 million (calculated at the exchange rate prevailing on 30 March 2007), including U.S.$16 million payable to members of the MMK Group who hold Ordinary Shares (see "Principal Shareholders and Selling Shareholder"). Such dividend is required by MMK's charter to be paid to holders of Ordinary Shares on the applicable record date, being 12 February 2007 for the fourth quarter 2006 dividend, within one year of such meeting. Investors in the Offering will not, therefore, be entitled to this dividend.

RISK FACTORS

An investment in the Ordinary Shares or the GDRs involves a high degree of risk. Prospective investors should consider carefully the following information about these risks, together with the other information contained in this Prospectus, prior to making any investment decision with respect to the Ordinary Shares or the GDRs.

If any of the following events actually occurs, the business, prospects, financial condition and results of operations of the MMK Group could be materially adversely affected. In that case, the price of the Ordinary Shares and GDRs could decline and investors could lose all or part of their investment. MMK has described the risks and uncertainties that its management believes are material, but these risks and uncertainties may not be the only ones that the MMK Group currently faces. Additional risks and uncertainties, including those that MMK is not currently aware of or deems immaterial, may also result in decreased revenues, increased expenses or charge to earnings or equity or other events that could result in a decline in the price of the Ordinary Shares and GDRs.

Risk Factors Relating to the MMK Group

The MMK Group is dependent on suppliers for many of the raw materials it uses and any change in the supply or prices of such raw materials could have a material adverse effect on its results of operations.

The MMK Group requires substantial amounts of raw materials in its steel production process, in particular coal, iron ore, coke, scrap metal, aluminium, nickel, ferro-manganese and silico-manganese alloys and zinc and is dependent on its relationships with its core suppliers of iron ore materials, coal and scrap. MMK has entered into long-term (five to ten years) contracts with its principal ore and coal suppliers. However, for other raw material suppliers and for other suppliers of coal and iron ore, contracts are typically concluded for one-year periods.

The principal suppliers of coal to the MMK Group are OOO Raspadsky Ugol, CJSC Sibuglemet, OOO Kuzmetugol and OOO TD Mechel (accounting for 77.8 per cent. of the MMK Group's supply of coal in 2006). In addition, the MMK Group holds a 50 per cent. interest in CJSC Kazankovskaya Coal Company, which owns two coal-mining projects in the Kuznetsk coal basin. However, MMK does not currently expect that commercial mining at these projects will begin supplying substantial amounts of coal to the MMK Group until 2015.

The MMK Group's principal supplier of iron ore pellets, and a significant supplier of iron ore concentrate, is Kazakhstan's Sokolovski mine operated by the Sokolovsko-Sarbaisky Ore Dressing Plant ("SSGPO") located 330 kilometres from Magnitogorsk. In 2006, SSGPO supplied approximately three-quarters of MMK's total iron ore consumption. Coke is produced by the coke-chemical division of MMK which processes coal concentrate purchased by the MMK Group from third-party suppliers. All of the MMK Group's scrap steel is supplied by CJSC Profit, a company affiliated with Mr Victor Rashnikov.

While the MMK Group may consider the acquisition of additional reserves of coal and of interests in iron ore or other suppliers, no assurance can be given to investors that such additional reserves will be acquired or that the terms relating to any such acquisition will be commercially reasonable.

The availability of these supplies may be negatively affected by a number of factors largely beyond the control of the MMK Group, including interruptions in production by suppliers (such as the interruption in supply from SSGPO which took place in 2005 as further described in "Business—Raw Materials and Energy"), allocation by suppliers to other purchasers, price fluctuations and transport costs. In addition, the MMK Group's operations require substantial amounts of other raw materials, including aluminium, nickel, ferro alloys (ferro-manganese and silico-manganese), copper, firebricks and zinc, the price and availability of which are subject to market conditions. There is no assurance that the MMK Group's sources of supply will consistently meet its quality requirements, be delivered on schedule or be available on commercially reasonable terms. In particular, demand for scrap in Russia is increasing, and supply may not be sufficient to meet this additional demand.

In addition, the MMK Group is exposed to the risk of suppliers forming alliances or cartels that may put upward pressure on pricing for such materials. Should the MMK Group's relationships with any of its key suppliers (in particular SSGPO) deteriorate, or one of its supply contracts terminate early or not be renewed on a timely basis on commercially acceptable terms, or at all, the MMK Group's ability to operate its business may be adversely affected. For example, certain of the MMK Group's key production equipment is calibrated to the technical specifications of the coal and iron ore of its key suppliers, and any change to this supply would require changes to MMK's existing production procedures.

In March 2007, MMK entered into a long-term ten-year iron ore supply agreement with ENRC Marketing AG ("ENRC"), an affiliate of SSGPO. Pursuant to this agreement, the price payable for iron ore supplied to the MMK Group is adjusted annually by reference to generally prevailing world FOB prices as specified in the agreement, and accordingly, the MMK Group remains exposed to the risk of fluctuations in the price of iron ore on the international markets. MMK undertook in this supply contract to obtain certain corporate approvals by 1 September 2007. Were MMK not to obtain such approvals, it would be in breach of this condition, which could form the basis of a challenge to the agreement, including by ENRC.

Finally, many of the MMK Group's domestic competitors, such as OJSC Novolipetsk Steel ("NLMK") and OJSC Severstal ("Severstal"), own or control some or all of their key suppliers of raw materials and, therefore, consequent increases in the prices of raw materials would more adversely affect the MMK Group in comparison to those competitors that have greater control over the cost of their key raw materials. The MMK Group may not be able to adjust its prices to recover the costs of increases in the prices of such raw materials.

For the reasons described above, any change in the prices or supply of raw materials could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

MMK has limited ability to reduce the volumes of iron ore that it is required to purchase under its long-term supply contract with ENRC (an affiliate of SSGPO) in the event that MMK's production levels decline.

The volumes of supplies that MMK is required to purchase under its ten-year contract with ENRC (an affiliate of SSGPO) for the supply of iron ore are fixed, and MMK has a limited right under the contract to reduce the amounts that it is required to purchase under the terms of this contract. As a result, if MMK's production volumes decline, whether as a result of a decline in demand for steel or otherwise, MMK may be required to purchase iron ore in excess of its requirements. This could result in MMK having to sell such supplies at prices less than the price for which they were purchased or could lead MMK to try to renegotiate this contract on terms which may be less favourable than those of the existing contract, which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group may be subject to increased prices and supply disruptions as a result of its dependency on a limited number of key energy suppliers.

Energy costs, particularly the cost of natural gas for electricity generation which accounts for a significant portion of the MMK Group's energy requirements, comprise a significant portion of the MMK Group's cost of production. Although MMK generated approximately 90 per cent. of its electricity needs internally in 2006, there can be no assurance that it will be able to continue to generate such a percentage. The expansion of the MMK Group's business and production capabilities, or disruptions to its ability to generate electricity, may require the MMK Group to purchase significant supplies of electricity on the wholesale market in the future.

In addition, a restructuring plan is currently being implemented by the Russian government for the domestic power sector aimed at introducing competition to the wholesale electricity market and moving from regulated pricing to a market-based system by 2011. Liberalisation may result in higher prices for electricity and potential interruptions in supply. In the event of a failure in the electricity grid, steel production could continue for only a limited time. Any or all of these developments could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group purchases virtually all of its natural gas, which it primarily uses in the production of electricity at the MMK Group's own generation facilities, from subsidiaries of OJSC Gazprom ("Gazprom"), such as OOO Chelyabinskregiongas, and independent gas supplier OJSC Novatek. In addition, gas supplied by Gazprom is one of the heating fuels used in the MMK Group's blast furnaces. Gazprom is the dominant producer and monopoly transporter of natural gas within Russia, as well as a significant supplier of natural gas to Western Europe. Gazprom's domestic natural gas prices are regulated by the Russian government, save for certain limited recently introduced market price sales, and these prices have been rising over the last few years, but still remain significantly below Western European levels and below the market prices charged by independent Russian gas suppliers. The lower prices charged by Gazprom have contributed to the MMK Group's ability to maintain a cost advantage over its non-Russian competitors. However, in May 2004, in connection with an agreement on Russia's accession to the World Trade Organization (the "WTO"), Russia and the European Union agreed that Russia would raise domestic natural gas prices to U.S.$37-42 per thousand cubic metres by 2006 (which has been achieved) and to U.S.$49-57 per thousand cubic metres by 2010.

In 2004, the MMK Group's average cost for natural gas was U.S.$28.97 per thousand cubic metres, which increased to U.S.$35.06 per thousand cubic metres in 2005 and to U.S.$41.70 per thousand cubic metres in 2006. From 1 January 2007, the regulated price of natural gas in Russia was set at U.S.$49.76 per thousand cubic metres. If the regulated price of natural gas continues to increase, as is currently anticipated to be the case, if Gazprom's domestic prices for industrial consumers of its natural gas are set at market rates, if steel companies are required to purchase a portion of their gas requirements at prices above the regulated prices, or if the MMK Group is required to source a greater proportion of its gas from independent suppliers at market rates, the MMK Group's operating expenses will rise and its profitability could be materially adversely affected. The MMK Group may also be adversely affected if Gazprom diverts its sales of natural gas to foreign markets, potentially resulting in MMK being unable to obtain supplies of natural gas in excess of its current supply level.

Any interruption in the supply of electricity or natural gas could adversely affect the MMK Group's business, results of operations, financial condition, future prospects and the price of its Ordinary Shares and GDRs.

Any economic downturn in Russian steel consuming industry sectors, in particular those which are significant consumers of the MMK Group's products, could adversely affect demand for, and the price of, the MMK Group's products.

Certain significant Russian steel consuming industry sectors, such as the automotive, pipe-making and construction industries, are sensitive to changes in general economic conditions. As a result, the demand for steel products in these industry sectors may decrease rapidly and significantly in the event that Russian or global economic conditions deteriorate. In addition, Russia's entry into the WTO, currently expected in 2007, may cause a decline in the growth, or even lead to a recession, in certain Russian industry sectors which are major steel consumers, such as those producing machinery and consumer goods. Significant decreases in the demand for steel products in any industry sector in which the MMK Group generates substantial portions of its revenues could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group may not be able to generate funding sufficient to complete the significant additional capital expenditures that MMK expects the MMK Group to incur in order to continue modernising and expanding its existing steel production facilities. If the MMK Group is unable to so generate necessary funding, or if such capital expenditure is not completed as anticipated, the MMK Group's business, results of operations and financial condition may suffer.

Steel production is a capital-intensive business. The MMK Group, as part of an extensive programme to modernise and develop its existing steel production facilities, has spent in excess of U.S.$3.2 billion over the last ten years. During the financial year ending 31 December 2007, MMK expects to spend approximately U.S.$782 million in planned capital expenditures in respect of the modernisation and investment programme. Over the period beginning during the current financial year through to the end of 2013, MMK expects to invest in excess of U.S.$5.2 billion on its planned capital projects. Of this amount, approximately U.S.$1.8 billion in aggregate will be spent on projects currently underway and on projects for which contracts have been executed. At the same time, MMK will also need to review and maintain existing infrastructure. MMK plans to rely on cash generated from the MMK Group's operations, the net proceeds of this Offering and the Open Subscription and to a lesser extent external debt financing, to provide the capital needed for these investments and the infrastructure maintenance programme. However, there can be no assurance that the MMK Group will be able to generate adequate cash from operations to finance such expenditures or that external financing will be available on reasonable terms, or at all.

In addition, capital improvement programmes are subject to a variety of potential problems and uncertainties, including in completion, cost overruns and defects in design or construction, which may require additional cash investment as well as changes in economic conditions which may affect the economic viability of such capital investments.

As a result, MMK can give investors no assurance that it will successfully implement its modernisation and investment programme, either in terms of the specific projects planned or the estimated costs.

Finally, the comprehensive and integrated modernisation and investment programme of the MMK Group is focused on increases in production and efficiency along the entire production chain. The MMK Group may, therefore, not be able to delay or cancel elements of the programme in the event of short falls in financing in a way that would not have a material adverse effect on the entire programme.

A failure to obtain, on commercially acceptable terms, sufficient funds in full for, or the occurrence of any such problems and uncertainties in, the MMK Group's capital investment programme could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Fluctuations in the foreign currency exchange rates of the Russian rouble and the euro, as compared to the U.S. dollar, may negatively impact the MMK Group's results of operations.

The MMK Group is exposed to foreign currency exchange rate risks. The currencies giving rise to these risks are primarily the rouble and the euro.

The MMK Group uses the U.S. dollar as its functional and reporting currency. Foreign exchange gains and losses result from converting monetary assets and liabilities denominated in the Russian rouble or euro into U.S. dollar amounts at each balance sheet date. This includes any borrowings in a foreign currency. As at 31 December 2006, the MMK Group had U.S.$108 million of a total of U.S.$1,006 million of its total debt (as defined in "Selected Historical Consolidated Financial and Other Information") denominated in currencies other than the U.S. dollar.

In addition, the MMK Group's results of operations are impacted by transactions entered into in currencies other than the U.S. dollar, and a fluctuation in exchange rates will result in a change in the recognised revenues and expenses associated with such transactions. Whilst the MMK Group's export revenues are generally denominated in the U.S. dollar, domestic revenues and costs are generally denominated in the Russian rouble.

Any sudden, significant foreign currency exchange rate fluctuations (both short- and long-term) could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs. For a description of the derivatives that the MMK Group uses to hedge its foreign currency risks, please read "Management's Discussion and Analysis of Financial Condition, and Results of Operations—Disclosure on Market Risk".

The steel industry is cyclical, which may result in adverse fluctuations in the demand for the MMK Group's products and the price at which the MMK Group is able to sell such products.

The steel industry is cyclical in nature because the industries in which a large proportion of the MMK Group's customers operates, such as the automotive, construction and pipe-making, are cyclical in nature and sensitive to changes in general economic conditions, which can result in adverse fluctuations in the demand for and price of steel products. In particular, the demand for steel products in Russia generally correlates with macroeconomic fluctuations in the Russian economy, but can also be affected by regional and global economic conditions. The prices of steel products in Russia and abroad are influenced by many factors, including local, regional and global steel consumption, local and worldwide production capacity, capacity utilisation rates, the cost of raw materials, exchange rates, trade barriers and improvements in steel-making processes. Steel prices in Russia and elsewhere have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, which are generally beyond the control of the MMK Group. In particular, increased competition from emerging or established steel producers may cause an oversupply of steel products on the global markets which may have the effect of reducing prevailing steel prices.

Adverse fluctuations in the demand for the MMK Group's products, the price of the MMK Group's products or the supply of competing products may result in overproduction or underproduction, increased costs, increased investment requirements, reduced revenues or general uncertainty in the steel industry, any of which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group may pursue opportunities to grow its operations through acquisitions, but there can be no assurance that it will be able to identify suitable acquisition targets or successfully integrate such acquired companies.

MMK intends to consider future acquisitions of assets or companies that will enable the MMK Group, separately or in the aggregate, to strengthen its market position, expand its product offering and reduce production costs through operational synergies and greater control of raw materials supplies. MMK expects that such measures may be necessary to enable the MMK Group to remain competitive in the Russian and global steel markets. During the three-year period ended 31 December 2006, the MMK Group made various acquisitions, the most significant of which being the acquisition of (i) a stake in OJSC Shelkovsky Zavod Spetzmontazhizdelie for U.S.$8 million, (ii) 100 per cent. of OOO Metal for U.S.$44 million, and (iii) a stake in OJSC Vladivostok Trade Sea Port for U.S.$41 million, principally for the purpose of securing its supply of coal and iron ore and export routes for its products.

The success of these and any other acquisitions will depend, in large part, on the MMK Group's ability to manage the process of integration of the acquired assets or companies into the MMK Group's corporate structure and operations and address such challenges as cultural differences, redundancies of personnel, incompatibility of equipment and information technology, production failures or delays, loss of significant customers, conflicts with minority shareholders in acquired companies and their material subsidiaries, the possible disruption of the MMK Group's own business, the assumption of liabilities relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, poor records or internal controls and difficulty in establishing immediate control over cash flows. In addition, the MMK Group may have relatively limited experience in the type of international acquisitions that it may choose to undertake.

The MMK Group may also not be able to identify suitable acquisition targets, and future acquisitions may not be available to the MMK Group on terms as favourable as in the past, or at all. The MMK Group also faces significant competition for potential acquisitions and it may not be possible for the MMK Group to conduct a detailed investigation of the nature of the assets or business being acquired due to, for example, time constraints in making the acquisition decision and other factors. In particular, it may be challenging to acquire further raw material assets, as there are relatively few iron ore and coal manufacturers in Russia not already owned by or affiliated with the MMK Group's competitors. The MMK Group may also become responsible for additional liabilities or obligations not identified or foreseeable by the MMK Group at the time of an acquisition, including off-balance sheet, pension and environmental liabilities.

Any or all of these difficulties could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group may experience equipment failure or other interruptions in manufacturing processes, production curtailment and shutdowns.

The MMK Group's manufacturing processes located at its single-site operating facility depend on the uninterrupted operation of critical pieces of steel-making equipment, such as furnaces, oxygen converters, electric arc furnaces, continuous casters, rolling mills and other equipment. This facility may, on occasion, experience shut-downs, down-time or periods of reduced production as a result of unanticipated malfunction, failure or defect, human error or as a result of the age of some of the MMK Group's equipment or facilities or other circumstances. In addition, the MMK Group's facilities are subject to the risk of damage due to unanticipated events, including the outbreak of fire, such as that which occurred in November 2006, resulting in property damage, casualties and loss of life. While the MMK Group maintains certain types of insurance, the MMK Group does not maintain insurance against lost profits resulting from a business interruption. In the event of equipment failure or damage to its facilities, the MMK Group may experience loss of revenues due to the possible reduction of production which may require additional capital expenditures to repair or replace faulty machinery, any of which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Penalties for failure to comply with Russian environmental laws and regulations or additional or stricter environmental rules and regulations, both in Russia and internationally, may significantly increase the MMK Group's cost of compliance.

The MMK Group's steel-making facilities, in common with the facilities of other full cycle steel and ferrous metal enterprises, have a substantial environmental impact, including the expulsion of pollutants into the air and surrounding bodies of water, storage and disposal of industrial waste and the use and processing of environmentally harmful materials. Accordingly, the MMK Group must comply with a wide range of environmental laws and regulations introduced in the Russian Federation. MMK's management does not believe that it is possible to accurately evaluate risks related to environmental pollution in the event of the unlawful discharge of environmentally hazardous materials as well as any related clean-up expenses, until a uniform regulatory framework is established and the scope of liability is clearly defined under environmental laws and regulations applicable in the Russian Federation.

In the Russian Federation, as well as in other countries, environmental laws and regulations are subject to change. New laws and regulations, the imposition of more stringent requirements in relation to licences and permits, increases in penalties for breaching such laws and regulations and the imposition of the Kyoto Protocol and other international environmental laws, regulations or licences may require further expenditures to modify outdated technological processes, install pollution control equipment, build additional clean-up facilities, curtail operations, increase insurance contributions, pay fees, fines or make other payments in relation to environmental pollution. For example, new, more strict, environmental requirements were introduced in Russia after 2001 and penalties and payments for environmental pollution have been substantially increased.

State authorities of the Russian Federation have the power to take action for failure to comply with applicable environmental requirements, including fines, revocations of licences and consents, suspension of construction of new production facilities and reconstruction of old facilities, suspension of activities at production facilities as well as the power to impose further restrictions on the MMK Group's operations.

MMK has been subject to immaterial fines and other penalties arising out of failures to comply fully with environmental regulations in the past. No assurance can be given that Russian authorities will not impose additional regulations or increase the levels of fines or other payments relating to environmental pollution or that the MMK Group will remain in compliance with applicable laws and regulations. Failure to comply with such regulations could result in significant penalties or restrictions being imposed on the MMK Group's operations, and any new or more strict environmental laws or regulations could require significant expenditure in order for the MMK Group to comply with such laws or regulations. Such expenditures could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

An increase in existing trade barriers or the imposition of new trade barriers in the MMK Group's principal export markets, or affecting the markets from which the MMK Group imports its key raw materials, could cause a significant decrease in the demand for its products in those markets or could increase the cost of raw materials imported from such markets, respectively.

The MMK Group's products are, from time to time, subject to various trade barriers, such as anti-dumping duties, tariffs and quotas, in its principal export markets, such as the markets in the European Union. These trade barriers can affect the demand for the MMK Group's products by effectively increasing the prices for those products compared to products available from sources other than Russia. Recently, the Russian government approved anti-dumping duties on nickel-containing steel imported into Russia from European Union countries. If the European Union imposes duties or tariffs or takes other measures in response to these Russian anti-dumping duties, the MMK Group's exports of steel to the European Union, one of the MMK Group's main export markets, could be significantly adversely affected.

In addition, the MMK Group imports significant amounts of iron ore and amounts of coal from Kazakhstan. The import of such raw materials has in the past been subject to both rail tariffs set by the Federal Tariffs Service ("FTS") and levied by OJSC Russian Railways ("Russian Railways") that are higher than those for comparative domestic transport and to import duties. Should such duties be imposed or such tariffs increased, the MMK Group's cost for such key raw materials would increase.

An increase in existing trade and import barriers or rail transportation tariffs, or the imposition of new trade and import barriers or rail transportation tariffs, could cause a significant decrease in the demand for the MMK Group's products outside of Russia, or could increase the amount the MMK Group is required to pay for its raw materials, either of which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group's existing and future insurance coverage may not be sufficient.

The insurance industry is not yet well developed in the Russian Federation, and many forms of insurance protection common in more economically developed countries are not yet available in the Russian

Federation on comparable terms as in Western Europe or the United States, or at all, including coverage for business interruption. The MMK Group insures its property and equipment, construction in progress, operational current assets and personnel against certain risks. See "Business—Insurance". However, the MMK Group's insurance coverage may not be sufficient to cover potential losses and may be less in amount of coverage than insurance available to steel companies in more economically developed countries. In addition, the MMK Group does not insure its stock or against loss of profits. The MMK Group would therefore suffer losses in the event of damage to or destruction of any of its principal inventory or operating assets.

In addition, no assurance can be given that the MMK Group will be able to maintain its existing insurance coverage or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between the MMK Group's liability under losses or claims and its insurance coverage. For example, the MMK Group is currently in discussions with its insurers regarding the fire which occurred in its facilities in November 2006 and which resulted in property damage, casualties and loss of life. Depending on the outcome of those discussions, the MMK Group's insurance premiums may not benefit from the annual reductions received in prior years and may increase, potentially substantially. Any loss or claim or increase in insurance premiums could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group maintains a significant part of the social and physical infrastructure in the Magnitogorsk area and, in the event of an economic downturn or other corporate efficiency initiative, the MMK Group's ability to reduce the number of its employees may be restricted.

Historically, the MMK Group has been responsible for establishing and maintaining a large part of the social and physical infrastructure in and around the City of Magnitogorsk and currently owns various social assets. Although in recent years the economy of the surrounding region has become more diversified as a result of the development of other industries, the region remains economically dependent on the MMK Group to a significant degree. The MMK Group is by far the largest employer in Magnitogorsk, and MMK estimates that the MMK Group's tax payments to the City of Magnitogorsk accounted for approximately half of the City's total tax revenue for each of the three years during the period ended 31 December 2006. MMK expects that the City of Magnitogorsk and the surrounding region will continue to rely on the MMK Group for a substantial portion of its budget and that it will continue to maintain its current commitments in respect of social, employment and welfare infrastructure in the Magnitogorsk area. See "Business—Social Projects and Commitments in Magnitogorsk".

As a result, in the event of an economic downturn or other corporate efficiency initiative, the MMK Group's ability to reduce the number of its employees may be subject to political and social considerations. This substantial commitment of resources and inability to make rapid or significant reductions in the number of its employees decreases the MMK Group's flexibility to rapidly adjust its operations to respond to changes in market conditions. The MMK Group's limited flexibility and significant level of additional fixed resource commitments could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The Russian and global steel industries are highly competitive and the MMK Group may not be able to compete successfully.

The markets for steel and steel products are highly competitive. The MMK Group faces significant domestic competition from other steel producers, such as Severstal, NLMK, Evraz Group SA ("Evraz") and OJSC Mechel Steel Group ("Mechel"), as well as regional and global competition from other producers, such as Arcelor Mittal, the group formed by the recently merged Tata Steel and Corus and Shanghai Baosteel. Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. The MMK Group's competitors may be larger or have greater capital resources than the MMK Group or, in some cases, have lower raw materials costs. Competitors may also have competitive advantages in terms of location and access to key suppliers and transport routes. The MMK Group's competitive position may also be affected by the recent trend towards consolidation in the global steel industry (as well as in Russia and the CIS) as exhibited by the recent combinations to form Arcelor Mittal and the group formed by the recently merged Tata Steel and Corus. The highly competitive nature of the steel industry combined with excess production capacity for some steel products has exerted, and may in the future continue to exert, downward pressure on prices of certain of the MMK Group's products. In particular, in Russia and the CIS, steel producers compete for the services of a relatively limited number of specialist and qualified personnel. There can be no assurance that the MMK Group will be able to compete effectively in the future and failure by the MMK Group to compete effectively for any of these reasons could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs. For a further discussion of the competitive environment in the Russian steel industry, see "Industry".

Russian competition law may impose certain restrictions on the MMK Group in those product areas where the MMK Group is deemed to have a dominant position.

As a Russian steel producer, MMK appears on the register maintained for companies with more than a 35 per cent. share of the market for particular goods in the Russian Federation. For some of the products that MMK sells (typically certain of its niche value added products where no or few other Russian steel producers make such products), its market share in the Russian Federation exceeds 50 per cent., which means that it is deemed to have a dominant position in those product markets. Under the current Russian competition law, companies having a dominant position are subject to various restrictions aimed at preventing abuses by such companies of their dominant position, including without limitation, restrictions on their ability to set prices for their products (the dominant company may not set or maintain high or low monopolistic product prices). Restrictions on MMK's ability to set prices for its products or challenges brought by third parties or other restrictions imposed by the Russian government could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs. See "Regulation of the Steel Industry in the Russian Federation—Regulation of Competition".

The MMK Group's competitive position and future prospects are heavily dependent on the experience and expertise of the Chairman of MMK's Board of Directors and other senior management.

Mr Rashnikov, who acts as the Chairman of MMK's Board of Directors and is the President of OOO MMK Managing Company (to which executive management of MMK has been delegated), and other of MMK's senior management team have been and, MMK believes, will continue to be important in the implementation of the MMK Group's strategy and the operation of the MMK Group's day-to-day activities. Mr Rashnikov is, and will continue to be after giving effect to the Offering and the Open Subscription, also the controlling shareholder of MMK. The experience, personal connections and relationships of the Chairman and other members of senior management are important to the conduct of its business. There can be no assurance that these individuals will continue to make their services available to the MMK Group in the future. Moreover, competition in the Russian Federation for personnel with relevant expertise is intense due to the limited number of qualified individuals, and this situation could seriously affect the MMK Group's ability to retain its existing senior management and attract additional suitably qualified senior management personnel. The loss or diminution in the services of members of the MMK Group's senior management team or an inability to attract and retain additional senior management personnel could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Disruption in rail transport and increased rail costs could significantly hinder the MMK Group's operations and product distribution in the Russian Federation.

Due to the location of its single-site production facility in the southern Urals, with no direct access to river or sea transportation routes, the MMK Group depends on railway transportation to distribute its products to both the export and domestic markets, as well as to transport raw materials to its production facilities. The MMK Group relies predominantly on the rail freight network operated by Russian Railways, which is a state-owned company handling the majority of all freight transportation by rail in Russia and which is scheduled for partial privatisation before 2010.

Use of the Russian railway system exposes the MMK Group to risks such as the disruption in transportation schedules (and thus to deliveries of the MMK Group's raw materials and products) due to the declining physical condition of Russian tracks and rolling stock, the shortage of rolling stock, the congestion on railways, the theft of products during transportation, and the accidental loss of some or all of the load during a journey, including those due to poorly maintained rolling stock, and accidents such as train collisions or derailments. In particular, the rolling stock of Russian Railways is generally in a poor state of repair. The failure of Russian Railways to upgrade its rolling stock in the immediate future could result in a shortage of available working rolling stock, a disruption in transportation of the MMK Group's raw materials and products, the MMK Group's subsequent failure to meet contractual obligations and/or increased costs of rail transport. Additional costs and logistical constraints are imposed by the incompatibility of the Russian broad-gauge railway system with the railway systems of neighbouring countries. See "Business—Transport of raw materials".

In addition, the Russian government sets rail tariffs and may further increase these tariffs, as it has done in the past. Such increases in railway tariffs have resulted in significant increases in the MMK Group's transportation costs and could continue to do so in the future. Both the privatisation of Russian Railways and the cost of upgrading its rolling stock and other facilities could further contribute to increased tariffs.

Any disruption in transportation or increase in tariffs could adversely impact the MMK Group's ability to generate revenue and may significantly increase the MMK Group's costs, which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The climate surrounding Magnitogorsk and key customers or suppliers of the MMK Group's raw materials may disrupt operations.

The climate of the region surrounding Magnitogorsk and in other regions of Russia or Kazakhstan where the MMK Group's suppliers of raw materials or customers are located can limit operations during certain times of the year. For example, heavy snow and ice can often restrict the shipment of steel products to customers in Siberia and harsh winter and icy conditions in general can disrupt transport of steel products and necessary raw materials, including the export of products through sea ports, which could lead to significant increases in transportation and freight costs. In the event that harsh weather conditions impede the MMK Group's ability to transport its products in a timely or anticipated manner, the MMK Group's transportation costs may rise significantly and therefore have a negative impact on the MMK Group's business and results of operations.

The MMK Group may be subject to administrative sanctions, required divestitures or limitations on operations if it fails, or is found to have failed, to comply with the prior approval or subsequent notification requirements of the Russian Federation Antimonopoly Service (the "FAS RF").

The MMK Group has expanded its operations to some degree through the acquisition of companies that are incorporated and operating in the Russian Federation or assets that are located in the Russian Federation. Certain of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements of the FAS RF, or its subdivisions. There can be no assurance that the FAS RF will not challenge the MMK Group's past compliance, which could result in administrative sanctions, required divestitures or limitations on operations. Any such sanctions, divestitures or limitations could adversely affect the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences or if such licences are revoked or terminated.

The MMK Group's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences. Russian regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations.

The licensing process may be influenced by outside commentary, political pressure and other extra-legal factors. Accordingly, licences that the MMK Group requires may be invalidated or revoked or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict the MMK Group's ability to conduct its operations or to do so profitably.

The MMK Group and its subsidiaries are subject to various obligations pursuant to the licences they hold. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence, which are not always easily identifiable. Court decisions on the meaning of these terms have been inconsistent and, under the Russian Federation's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of licensees. As a result, even though MMK believes that the MMK Group is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in the Russian Federation discover a significant or material violation by the MMK Group, or a subsidiary of the MMK Group, that entity may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation.

Any or all of these factors may affect the MMK Group's ability to obtain, maintain or renew necessary licences. If the MMK Group is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, this could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The MMK Group depends on specialist qualified personnel, including in particular key accounting staff for the preparation and timely reporting of its consolidated U.S. GAAP financial information and qualified steel workers for the operation of its business.

The preparation of the MMK Group's consolidated U.S. GAAP financial statements is a complex task requiring U.S. GAAP-experienced accounting personnel. In Russia, there is an increasing demand for the small number of U.S. GAAP-experienced accounting personnel as more Russian companies begin to prepare financial statements on the basis of U.S. GAAP or other international standards. Such competition may hinder the MMK Group's efforts to hire and retain key accounting staff.

In addition, the operation of the MMK Group's steel manufacturing plant requires qualified personnel with experience both in the steel industry and with particular machinery and processes. In Russia, there is an increasing demand for such personnel from other major Russian and global steel companies, from pipe-manufacturing companies and from other metal producers, such as aluminium and zinc manufacturers. Such competition may hinder the MMK Group's efforts to hire and retain suitably qualified operational staff.

A lack of qualified accounting staff or a lack of qualified operational staff could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Privatisation laws in the Russian Federation remain vague.

MMK was initially privatised in 1992 and the remainder of the state-owned shares were sold in 2004. Privatisation legislation in the Russian Federation has been on occasion vague, inconsistent and conflicting with other applicable legislation. As a result of inconsistencies even between federal and local privatisation legislation, most, if not all, privatisations were arguably deficient and therefore were vulnerable to challenge at least on formal grounds.

No action has been taken towards the invalidation of MMK's status as a privately-owned company and MMK is not aware of any ongoing or pending challenges to the privatisation of MMK. In the event that MMK is subject to challenge as having been improperly privatised and is unable to defeat such claims, holders of Ordinary Shares and GDRs may lose all or part of their investment.

The MMK Group's existing arrangements with its trade union may not be renewed on terms favourable to the MMK Group, and the MMK Group's operations could be adversely affected by strikes and lockouts.

As of 31 December 2006, approximately 98 per cent. of the MMK Group's employees were represented by a trade union. Large union representation subjects the MMK Group's businesses to the threat of interruptions through strikes, lockouts or delays in renegotiations of labour contracts. The MMK Group's existing collective bargaining agreement with the trade union is due to expire in 2008 and the MMK Group may not be able to renew it on terms favourable to it, or at all. Failure to do so may adversely affect the MMK Group's business, financial condition, results of operations, future prospects and the price of the ordinary shares and GDRs.

Estimates of reserves are subject to uncertainties.

The estimates contained in this Prospectus concerning reserve deposits that the MMK Group has an interest in are subject to considerable uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in the future. Moreover, actual production results may differ significantly from these estimates. In addition, it may take many years from the exploration phase before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant raw materials. The ability of the MMK Group to develop these reserves is subject to its ability to maintain and renew the licences relating to those reserves. To the extent that the actual reserves are less than the estimated reserves, or cannot be extracted cost effectively, or at all, the MMK Group may incur a significant write-down of such assets and the MMK Group's security of supply of certain raw materials may decrease and its production costs may increase significantly, which may have a material adverse impact on its business, results of operations and financial condition.

The MMK Group is subject to mining risks.

The iron ore and coal-mining operations conducted by the MMK Group, like those of other companies engaged in mining operations, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property. The MMK Group's core competency is not mining and it is at risk of experiencing any and all of these hazards. The occurrence of any of these hazards could significantly increase its mining costs, delay production, increase production costs and result in injury to persons and damage to property, as well as liability for the MMK Group. The liabilities resulting from any of these risks may not be adequately covered by insurance. The MMK Group may therefore incur significant costs that could have a material adverse effect on its business, results of operations and financial condition.

The MMK Group has not independently verified information regarding the metals and mining industry, nor has it independently verified official data from Russian government agencies.

The MMK Group has derived substantially all of the information contained in this Prospectus concerning the metals and mining industry from publicly available information, including press releases and filings under the U.S. securities laws, and has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases from those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risk Factors Relating to the Russian Federation

MMK and substantially all of its subsidiaries are located in the Russian Federation, the majority of the MMK Group's fixed assets are located in the Russian Federation and a significant portion of the MMK Group's revenues are derived from the Russian Federation. There are certain risks associated with an investment in the Russian Federation.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the MMK Group's business, and cause the price of the Ordinary Shares and GDRs to decline.

Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and who fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should note that emerging markets such as the Russian Federation are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The Russian Federation's physical infrastructure is in a poor condition, which may lead to disruptions in the business of the MMK Group or an increase in its costs.

The physical infrastructure in the Russian Federation, including rail and road networks, power generation and transmission, communications systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained. Electricity and heating shortages in some regions of the Russian Federation have seriously disrupted the local economies.

Road conditions throughout the Russian Federation are also poor, with many roads not meeting modern quality requirements. Some areas within the Russian Federation, particularly those surrounding ageing nuclear power plants, are potentially hazardous. The federal government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of the Russian Federation's physical infrastructure may harm the national economy, disrupt access to communications, increase the cost of doing business in the Russian Federation or disrupt business operations, any or all of which could have a material adverse effect on MMK's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

There continues to be a lack of reliable official data.

Official statistics and other data published by Russian federal, regional and local governments and federal agencies are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases from those used in Western countries. Any discussion of matters relating to the Russian Federation herein may therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Political Risks

Conflict between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment, which could hinder the MMK Group's ability to plan for the long term and adversely affect the value of the MMK Group's business.

The Russian Federation is a federation of 86 sub-federal political units, some of which exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional authorities remains uncertain and contested. As the substantial majority of the MMK Group's assets are located in one region of Russia, this uncertainty could hinder the MMK Group's long-term planning efforts, create uncertainties in the MMK Group's operating environment in the Russian Federation and prevent the MMK Group from effectively and efficiently carrying out its business strategy.

In the past, ethnic, religious, historical and other divisions have given rise to tensions and, in certain cases, military conflict—such as in Chechnya where normal economic activity ceased for a period of time. Violence and attacks in connection with this conflict also spread to other parts of the Russian Federation and resulted in terrorist attacks in Moscow. In the future, such tensions, military conflict or terrorist activities could result in significant political consequences, including the imposition of a state of emergency in some or all of the Russian Federation or heightened security measures, which may disrupt normal economic activity and have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Political and governmental instability could adversely affect the value of investments in the Russian Federation, including the Ordinary Shares and GDRs.

Since 1991, the Russian Federation has moved from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been unstable. For example, six different prime ministers headed parliaments between March 1998 and May 2000. During his term as president, President Vladimir Putin has generally maintained governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supporting President Putin.

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as prime minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the Russian government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. President Putin has also introduced reforms by which executives of sub-federal political units in the Russian Federation are no longer elected by the population, but instead are nominated by the President of the Russian Federation and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that was adopted on 18 May 2005 and took effect on 7 December 2006, single-member-district elections for the State Duma are to be eliminated and all votes are instead to be cast on a party-list basis.

Future changes in the Russian government State Duma or presidency during the elections scheduled for 2007 and 2008, as well as major policy shifts or lack of consensus among President Putin, the government, the Russian Federation's parliament and powerful economic groups, could lead to political instability, which could have a material adverse effect on the value of investments in the Russian Federation generally. In particular, under the Russian constitution President Putin is not eligible to serve a further term as President. As a result, Russia is expected to have a new President and administration during the course of 2008. If the new President is not able to achieve and maintain current levels of political stability, the economy of the Russian Federation and the value of investments in Russia could decline significantly. Governmental instability or discontinuation of reform policies in Russia could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Arbitrary, selective or unlawful state action, in particular by the tax authorities, could have a material adverse effect on the MMK Group's business.

State authorities have a high degree of discretion in the Russian Federation and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Possible state actions include the withdrawal of licences, nationalisations, interference with or nullification of contracts and transactions entered into in connection with privatisations, invalidation of share issuances and registrations, sudden and unexpected tax audits, criminal prosecutions and civil actions.

In particular, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has attacked certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective. In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OJSC NK Yukos ("Yukos"), then the Russian Federation's largest oil company by production, on tax evasion and related charges, and on 31 May 2005 each was sentenced to nine years' imprisonment on these charges. Subsequently, additional charges have been brought and may result in further fines and longer terms of imprisonment. Significant back-tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OJSC Yuganskneftegaz ("Yuganskneftegaz"), and the global bankruptcy of Yukos. Yuganskneftegaz was acquired indirectly by OJSC OC Rosneft, a state-owned oil company, resulting in the first effective renationalisation of a significant company that had been privatised in the 1990s. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP and Sibneft as well as against Vimpelcom.

Partly in response to a statement by President Putin that tax authorities should not "terrorise" taxpayers, the State Duma recently approved amendments to the Tax Code to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent. However, some of the amendments reduce the rights of taxpayers, and there can be no assurance that the Russian Federal Tax Service will not become more aggressive in respect of future tax audits. In addition, as the MMK Group is the largest taxpayer in the region where it is located, any substantial decrease in its tax liabilities may be investigated by the tax authorities in a more aggressive fashion than would usually be the case.

Arbitrary, selective or unlawful state action, if directed at the MMK Group, could lead to the loss of key licences, termination of contracts, invalidation of share issuances, nationalisation of some or all of the

MMK Group's assets, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Economic Risks

The Russian economy has experienced periods of instability.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of "black" and "grey" market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

In the past, the Russian economy has been subject to abrupt and dramatic downturns. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies and resulted in the loss of bank deposits in some cases. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licences of certain of them were withdrawn.

There can be no assurance that the positive trends in the Russian economy experienced in recent years, such as the increase in the gross domestic product, a relatively stable rouble and a reduced rate of inflation, will continue or will not be abruptly reversed. In particular, as the Russian Federation produces and exports large quantities of oil and natural gas, the Russian economy is vulnerable to fluctuations in the prices of oil and natural gas on the world market, which reached record high levels in 2006. A significant or sustained decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect the Russian Federation's economy and, to the extent they relate to the MMK Group or an industry sector which is a major consumer of the MMK Group's steel products, the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Russian currency regulation and control legislation may limit the MMK Group's ability to execute its strategy, operate its business or could otherwise adversely affect the Russian capital markets.

During the 1990s, the Russian Federation's currency regulation and control regime severely limited, and at times prohibited, certain hard currency payments and operations.

Despite recent liberalisation in 2006, there can be no assurance that the Russian Federation's currency regulation and control regime will not impose restrictions or prohibitions such as a requirement to reserve funds for foreign currency transactions, the provision of security, the opening of special purpose accounts for some currency operations or the mandatory sale of foreign currency revenue. Currently, the MMK Group has limited assets outside of Russia, however, it is possible that it will acquire further such assets in the future. Possible restrictions or prohibitions on hard currency payments and operations could limit the MMK Group's ability to invest in its capital improvement programmes, acquire or purchase raw materials or sell its products internationally. In addition, such restrictions or prohibitions may limit an investor's ability to repatriate earnings from securities of Russian issuers, including the MMK Group, or otherwise have a negative impact on the Russian capital markets. The consequences of such restrictions or prohibitions could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Sustained periods of high inflation could adversely affect the MMK Group's business or results of operations.

The MMK Group's production activities are located in the Russian Federation, and the majority of the MMK Group's direct costs are incurred in Russian roubles. The Russian Federation has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4 per cent. in that year. Notwithstanding recent reductions in the inflation rate, which was 11.7 per cent. in 2004, 10.9 per cent. in 2005 and 9.0 per cent. (based on preliminary data published by the Russian Government) in 2006, the MMK Group tends to experience inflation-driven increases in certain of its costs, such as salaries, that are linked to the general price level in the Russian Federation. However, the MMK Group may not be able to increase the prices that it receives for its products sufficiently to preserve operating margins, particularly in the case of the MMK Group's export sales, when such inflation is accompanied by real appreciation of the rouble against the U.S. dollar or the euro. Accordingly, high rates of inflation in the Russian Federation could increase the MMK Group's costs and decrease the MMK Group's operating margins which could have a material adverse effect on the MMK Group's business, financial condition and results of operations.

The Russian banking system remains underdeveloped, with a limited number of creditworthy Russian banks, and another banking crisis could place severe liquidity constraints on the MMK Group's business.

The Russian Federation's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Between April and July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. As a result, there are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. Russian banks owned or controlled by the Russian government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil.

There are few, safe rouble-denominated instruments in which the MMK Group may invest any excess rouble cash. Another banking crisis or the bankruptcy or insolvency of the banks with which the MMK Group holds funds could result in the loss of the MMK Group's deposits or affect its ability to complete banking transactions in the Russian Federation, which could have a material adverse effect on the MMK Group's business and financial condition.

Risks Relating to the Russian Legal System and Russian Legislation

The Russian Federation's property law is subject to uncertainty and contradiction.

The legal framework relating to the ownership and use of land and other real property in the Russian Federation is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more developed market economies of North America and Europe. It is often difficult to determine with certainty the validity and enforceability of title to land in the Russian Federation and the extent to which it is encumbered. Moreover, in order to use and develop real property in Russia, approvals, consents and registrations of various federal, regional and local governmental authorities are required. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences for the landowners and other real estate owners and lessees, including in respect of any current construction activities. If the real property owned or leased by the MMK Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the MMK Group may lose the use of such real property, which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

The Russian Federation continues to develop its legal framework in accordance with the international standards and requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of the Russian Federation of 1993; the Civil Code of the Russian Federation (the "Civil Code"); and other federal laws, decrees, orders and regulations issued by the President, government and federal ministries, which can be complemented by regional and local rules and regulations, adopted in certain spheres of regulation. These legal norms on the one hand can overlap or contradict one another and on the other hand can leave gaps in the regulatory infrastructure. Several Russian laws have only recently become effective. Consequently, certain areas of judicial practice are not yet formed, and are often difficult to predict.

Among the risks inherent in the current Russian legal system are:

- inconsistencies among (i) federal laws, (ii) decrees, orders and regulations issued by the President, the Russian government, federal ministries and regulatory authorities and (iii) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation, particularly business and corporate law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- a high degree of unchecked discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect the MMK Group's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent MMK or its shareholders from obtaining effective redress in a court proceeding and could materially adversely affect the MMK Group's business, results of operations and future prospects, as well as the price of the Ordinary Shares and GDRs.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation is also less than complete. The Russian court system in the past has been and may still be understaffed and underfunded and corruption has in the past, and may again, occur amongst members of the judiciary. The Russian Federation, along with many Western European states, such as Germany and France, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can sometimes be time consuming because of the large number of outstanding court judgments. Additionally, court claims are often used in furtherance of political aims. The MMK Group may be or become subject to such claims and may not be able to receive a fair trial.

There are also legal uncertainties relating to property rights. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that the MMK Group's business is reorganised. Expropriation or nationalisation of any of the MMK Group's entities, their assets or portions thereof, or their break-up into separate companies, potentially without adequate compensation, could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

In the event that the title to any company acquired by the MMK Group through privatisation, bankruptcy sale or by other means is successfully challenged, the MMK Group may lose its ownership interest in that company or its assets.

Some of the MMK Group's assets consist of companies that have been privatised or that the MMK Group acquired through bankruptcy proceedings or directly or indirectly from others who acquired them through privatisation or bankruptcy proceedings, and the MMK Group may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings. Privatisation legislation in the Russian Federation is vague, internally inconsistent and in conflict with other elements of Russian legislation. Although the statute of limitations for challenging transactions entered into in the course of privatisations is currently three years, privatisations may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra-legal considerations.

If any of the MMK Group's acquisitions is successfully challenged as having been improperly conducted, the MMK Group may lose its ownership interests, which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

The Russian corporate governance code is not of the same standard as corporate governance requirements in the European Union and has not yet proven effective at ensuring strong corporate governance practices in the Russian Federation. The MMK Group, being a joint stock company incorporated in the Russian Federation, is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

In 2002, the Russian Federation introduced its first corporate governance code, which is recommended for use by companies listed on Russian stock exchanges. However, the Russian legal system continues to suffer from a lack of effectiveness and fails to provide adequate support for strong corporate governance practices and the Russian corporate governance code is not of the same standard as corporate governance requirements in the European Union. According to the European Bank for Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests. In addition, as a joint stock company incorporated in the Russian Federation, the MMK Group is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

Nevertheless, a failure to comply in full with corporate governance requirements that are mandatory for obtaining and maintaining a Russian stock exchange "B" listing may constitute grounds for de-listing a company such as MMK. Although a Russian stock exchange listing is a condition to the issuance by FSFM of a permit for GDRs, Russian securities laws and regulations are silent as to whether a de-listing constitutes grounds for revocation of the FSFM permit for the GDRs. While the MMK Group is not aware of any other Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked due to de-listing, this gap in the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the price of the Ordinary Shares and GDRs.

MMK may experience difficulty in enforcing its rights.

The current status of the Russian legal system makes it uncertain whether MMK would be able to enforce its rights in disputes with MMK's joint venture partners or other parties. Furthermore, the dispersion of regulatory power among a number of government agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian government has rapidly introduced laws and regulations and has changed its legal structures in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. MMK's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts which are not always effective and, as the Russian Federation is a civil law jurisdiction, judicial precedents generally have no binding effect. Enforcement of court orders can in practice be very difficult in the Russian Federation.

Shareholder liability under Russian legislation could cause MMK to become liable for the obligations of its Russian subsidiaries.

Under Russian law, MMK may be jointly and severally liable for the obligations of its subsidiaries together with such entities if (i) MMK, as a result of its ownership interest or subject to a contract between them or otherwise, is able to determine the decisions made by such subsidiaries, (ii) MMK has the ability to issue mandatory instructions to such subsidiaries and that ability is provided for by the charter of the relevant subsidiary or in a binding contract and (iii) the relevant subsidiary concluded the transaction to execute such instructions of the company giving rise to the obligations pursuant to MMK's mandatory instructions. In addition, MMK may have secondary liability for the obligations of its subsidiaries in the event of the relevant subsidiary becoming insolvent due to MMK's fault (in the event that MMK exercised its right to issue mandatory instructions knowing that this would result in the bankruptcy of the relevant subsidiary). This liability for obligations of subsidiaries could result in significant losses, and could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Changes and inconsistencies in the Russian tax system could adversely affect the MMK Group's business.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax or VAT, excise taxes, social and pension contributions and property tax. All of these taxes are subject to change. The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisers as to these tax matters before investing in the Ordinary Shares and GDRs.

The tax environment in the Russian Federation has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. Because of the political changes that have occurred in the Russian Federation over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, the Russian Federation has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; and the corporate property tax chapter of the Tax Code came into force on 1 January 2004.

In practice, the Russian tax authorities have their own interpretation of the tax laws that rarely favours taxpayers, who must often resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of bodies, each of which may impose fines, penalties and interest charges. Generally, taxpayer activities are subject to inspection for the three-year period immediately preceding the year in which the tax audit is carried out. As previous audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that effectively allowed the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the Tax Code if a court determines that the taxpayer has obstructed the course of tax inspection. Recent amendments to Part One of the Tax Code effective as of 1 January 2007 provide for the possibility of extension of the three-year term in cases where actions of the audited taxpayer created insurmountable obstructions to the tax authorities' audit. Since the term "obstructed" is not specifically defined in the Russian law, the tax authorities may attempt to interpret this term broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer and using that as a basis to seek tax adjustment and penalties beyond the three-year term. In some instances, changes in tax regulations have been given retroactive effect.

On 12 October 2006, the Supreme Commercial Court issued a guideline to differentiate between acceptable tax planning on the one hand and tax evasion and avoidance on the other. The Court applied the concept of "unjustified tax benefit".

The Court defined a tax benefit as reduction of tax to be paid, e.g. a reduction of the tax base, an increased tax deduction, and the application of a reduced tax rate or tax exemption. A tax benefit, however, is lacking justification in cases when it is based on transactions being economically or commercially unreasonable, or when the form of a transaction differs from its substance, i.e. does not meet the criteria of "reality". A tax benefit itself, being the exclusive or primary goal of a transaction, cannot constitute a valid business or economic purpose and thus help to justify a transaction. If a court concludes that the tax benefit is unjustified, the taxpayer may be deprived of such a benefit.

In case of a conflict between the legal form and the substance of a transaction, a court must define tax obligations in accordance with its substance. The tax authorities do not need to specifically contest in a court sham transactions, and may file a claim in respect of substantial penalties on the basis of re-characterised income and/or collect tax and interest from the taxpayer directly.

There is no concept of a tax group in the Russian Federation, nor can a consolidated filing be made by Russian companies for tax purposes. Therefore, Russian companies and each of their Russian subsidiaries pay their own Russian taxes and may not surrender profit or losses to other group companies for tax purposes.

In addition, payments of dividends between two Russian companies are currently subject to a withholding income tax of 9 per cent. at the time they are paid out of profits, and 15 per cent. if being paid by a Russian company to foreign companies. If the receiving Russian company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend, although not against any withholding made on a distribution to a foreign company. This may give rise to additional tax liabilities and inefficiencies in multi-level Russian groups such as the MMK Group.

The conditions mentioned above create tax risks in the Russian Federation that are more significant than those typically found in countries with more developed tax systems, imposing additional burdens and costs on the MMK Group's operations and management resources. In addition to creating a substantial tax burden, these risks and uncertainties complicate the MMK Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant fines and penalties and enforcement measures, and could adversely affect the MMK Group's business, financial condition and results of operations. In addition, there can be no assurance that the current tax rates will not be increased or that new taxes will not be introduced. Increases in the taxes payable by the MMK Group and the imposition of fines, penalties or interest charges could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect the MMK Group's results of operations.

Russian transfer pricing rules came into force in 1999, giving the tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of "controlled" transactions, provided that the transaction price differs from the market price by more than 20 per cent. "Controlled" transactions currently include transactions with related parties, barter (in-kind exchange) transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). Transfer pricing adjustments are also applicable to transactions with securities and derivatives.

The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction.

At the moment, the Ministry of Finance is preparing a draft law that will potentially tighten transfer pricing rules further. At this point it cannot be predicted when this law will be enacted, if at all, and what the provisions or effect on taxpayers, including the MMK Group, may be.

While MMK and certain of its subsidiaries engage in numerous transactions that may be deemed to be related-party transactions, they seek to conduct such transactions at prices that would be considered market prices in transactions between unrelated parties. However, it is not always possible to determine a market price for a specific transaction, and the Russian tax authorities may take a view as to what constitutes an appropriate market price that differs from the MMK Group's view. As a result, the Russian tax authorities may challenge prices in such transactions and propose tax adjustments. If any such tax adjustments are implemented, the MMK Group could incur significant additional liabilities on account of taxes, interest and penalties. Such additional liabilities could have an adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

Risks Relating to the Ordinary Shares and GDRs

The concentration of MMK's share ownership gives the Chairman of its Board of Directors, who is also MMK's ultimate controlling shareholder, considerable control over the MMK Group and minority shareholders will have limited ability to enforce their rights.

Mr Rashnikov, the Chairman of MMK's Board of Directors and the president of OOO MMK Managing Company, is the ultimate beneficial owner of the Ordinary Shares in MMK held by Mintha Holding Limited and Fulnek Enterprises Limited. As a result of his beneficial ownership in these companies, Mr Rashnikov indirectly controlled, as at 12 February 2007, voting rights in relation to 85.55 per cent. of MMK's Ordinary Shares and indirectly benefited from an option to acquire on or before 20 June 2009, failing which an obligation to repurchase on such date, a further 7.37 per cent. (in each case, excluding treasury shares held by members of the MMK Group) of such Ordinary Shares. Immediately following the Offering and Open Subscription, assuming exercise of the Over-allotment Option in full and that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised, Mr Rashnikov is expected to indirectly own or control 76.79 per cent. of MMK's Ordinary Shares (excluding Ordinary Shares subject to the option described above and treasury shares held by members of the MMK Group). Any event or circumstance affecting Mr Rashnikov as a natural person, such as divorce, incapacity or death, may have an impact on the control over, and ownership of his interest in, MMK and may lead to a change of control of MMK any or all of which could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs. In addition, as a result of his indirect ownership, Mr Rashnikov has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, the election of directors, the declaration of dividends, appointment of management and other policy decisions. For example, Mr Rashnikov could, in certain circumstances, cause the MMK Group to pursue acquisitions and other transactions or to make large dividend payments or other distributions or payments to shareholders that are intended to enhance the value of the MMK Group in the short term, even though such transactions may involve increased longer-term risk for the MMK Group. The interests of Mr Rashnikov may, in some circumstances, conflict with the interests of minority shareholders and holders of GDRs, and he may, in certain circumstances, cause the MMK Group to take actions that materially adversely affect the price of the Ordinary Shares and the GDRs.

In addition, since the concept of fiduciary duties of directors to minority shareholders is not well developed in the Russian Federation and Russian courts have little experience with actions brought by minority shareholders, any legal redress for damage to minority shareholders resulting from Mr Rashnikov's actions as the ultimate controlling shareholder may be limited.

MMK has engaged and may continue to engage in interested party transactions.

MMK has engaged in transactions with affiliated persons, in particular, in the case of MMK, with certain of its shareholders, including Mr Rashnikov, directors and executive officers and companies controlled by them or in which they or MMK own an interest. See "Interested Party Transactions".

For example, MMK has engaged in transactions such as equity purchases and sales, supply contracts, loan arrangements, insurance agreements, guarantees in relation to real property acquisitions and loans. Conflicts of interest may arise between MMK and its affiliates, resulting in the conclusion of transactions on terms that may not be at fair market value. Certain of such transactions constitute "interested party transactions" under Russian law.

Under the Federal Law on Joint-Stock Companies dated 26 December 1995 (as amended) (the "Federal Law on Joint Stock Companies") , the definition of an "interested person" includes members of the board of directors and members of any management body of a company, a managing company, the general director of the company and a shareholder, which together with its affiliates owns 20 per cent. or more of the company's voting shares or a person who otherwise has the right to give mandatory instructions to the company if any of the above-listed persons, or a close relative or affiliate of such person, is:

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner (singly or in the aggregate) of at least 20 per cent. of the shares in the company that is a counterparty to a transaction, whether directly or as a representative or intermediary, or a beneficiary to a transaction; or
- a member of the board of directors or any management body of the company (or of the managing company of such company) that is a counterparty to a transaction, whether directly or as a representative or intermediary, or a beneficiary to a transaction.

Russian law requires approval by a majority vote of (i) directors or (if the number of voting shareholders exceeds 1,000) independent directors disinterested in the execution of a transaction or (ii) in some circumstances of "disinterested shareholders" for interested party transactions. Any interested party transactions not executed in compliance with the laws may be deemed invalid following the claim of the relevant company or a shareholder. In certain cases, it may not be possible for MMK to obtain the necessary approvals. Furthermore, MMK could find itself subject to requests for the payment of monies or the exchange of other assets by disapproving minority shareholders in order to be permitted to take certain of these corporate actions. If MMK is unable to obtain necessary approvals for such transactions but nonetheless determines to proceed, such transactions will be voidable and may be challenged in court by MMK or any of its shareholders. In addition, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons", which are subject to different interpretations under Russian law. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. MMK's compliance with these requirements may be subject to challenge. Any successful challenge could result in the invalidation of transactions that are important to the MMK Group's business.

MMK believes that these interested party transactions have been and will continue to be concluded on an arm's length basis. However, there can be no assurance that the terms on which these interested party transactions are conducted have not and will not differ significantly from the terms on which third-party transactions have been and are conducted. The practice of interested party transactions may result in transactions conducted on terms less favourable to the MMK Group than would otherwise have been negotiated with third parties and could have a material adverse effect on the MMK Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and GDRs.

This Offering may not result in an active or liquid trading market for the Ordinary Shares or the GDRs.

Although MMK's Ordinary Shares are admitted to trading on the RTS and MICEX, an active trading market may not develop or be sustained for the Ordinary Shares or the GDRs. Although it is intended that the Ordinary Shares remain listed on the RTS and MICEX, and MMK has applied to the UK FSA and the London Stock Exchange for the GDRs to be admitted to the Official List maintained by the FSA and to the regulated main market of the London Stock Exchange, there can be no assurance that, upon completion of this Offering, investors will be able to resell the Ordinary Shares or the GDRs purchased in this Offering at or above the purchase price paid by them or at all.

The Ordinary Shares and the GDRs may be subject to market price volatility and the market price of the Ordinary Shares and the GDRs may decline disproportionately in response to adverse developments that are unrelated to the MMK Group's operating performance.

The market price of the Ordinary Shares and the GDRs may fluctuate due to a variety of factors, including, but not limited to, those referred to in this section, as well as period-to-period variations in operating results or changes in turnover or profit estimates by the MMK Group, industry participants or financial analysts. In addition, the price of the Ordinary Shares and the GDRs may be adversely affected by developments unrelated to the MMK Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the MMK Group, speculation about the MMK Group in the press or the investment community, strategic actions by competitors, such as acquisitions and restructurings, and changes in market conditions or the regulatory environment.

The number of Ordinary Shares that may be deposited into the GDR programme is limited, and changes in Russian regulatory policy with respect to the placement and circulation of the Ordinary Shares outside the Russian Federation in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in this Offering.

Whenever the Depositary believes that it exceeds or would upon accepting additional Ordinary Shares for deposit exceed any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies or would upon accepting additional Ordinary Shares for deposit satisfy any condition for making any filing, application, notification or registration or obtaining any approval, licence or permit under any applicable law, directive or regulation, or taking any other action, it may, under certain circumstances after prior consultation with MMK, (i) close its books to deposits of additional Ordinary Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying Ordinary Shares from the depositary receipt programme to the extent necessary or desirable to so comply. See "Terms and Conditions of the Global Depositary Receipts—2 Suspension of Issue of GDRs and of Withdrawal of Deposited Property".

The Russian securities regulatory authorities impose certain restrictions on the placement and circulation of the securities of Russian companies outside the Russian Federation in the form of GDRs or otherwise. Currently, no more than 35 per cent. of any given class of a Russian company's shares may be circulated abroad through depositary receipt programmes, whether sponsored or unsponsored. MMK has received a permit from the Russian securities regulatory authorities for up to 25 per cent. of its share capital to be circulated abroad in the form of GDRs. Upon completion of the Offering and assuming exercise of the Over-allotment Option in full, MMK's GDR programme would have a remaining approved capacity of 14.96 per cent. of its outstanding Ordinary Shares if all of the Ordinary Shares offered in the Offering are ultimately held in the form of GDRs. There can be no assurance that MMK will be able to obtain approval for a deposit of a greater number of Ordinary Shares in the GDR programme than it currently has approval for, and any remaining capacity may be used by MMK's other existing shareholders. Therefore, it may not be possible to deposit Ordinary Shares into MMK's GDR programme in order to receive GDRs and, in certain circumstances described above, holders of Ordinary Shares may be required to withdraw Ordinary Shares from the GDR programme, which may in either case affect the liquidity and the value of their investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that the authorities will not reduce the permitted percentage of trading in GDRs or impose other restrictions. Such new or extended regulations could have a material adverse effect on the price of the Ordinary Shares and GDRs.

Regulation of Russian capital markets provides inadequate protection to holders of securities.

The Russian Federation's regulation and supervision of its securities market, financial intermediaries and issuers is less developed than those of countries in Western Europe and in the United States. Any publicity or disclosure with respect to any perceived or actual violations by the MMK Group of corporate governance, disclosure and reporting requirements or breaches of anti-fraud safeguards, insider-trading restrictions and fiduciary duties could have a material adverse effect on the value of an investment in the Ordinary Shares and GDRs. In addition, the lack of co-ordination between the several different agencies regulating the Russian securities market, including the FSFM, the Ministry of Finance, the FAS and the CBR often results in contradictions.

Furthermore, Russian corporate and securities regulations can change rapidly, which may adversely affect MMK's ability to conduct transactions in securities. While some important areas are subject to virtually no supervision, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the MMK Group. Moreover, the FSFM has recently introduced a number of regulations relating to offerings of shares in and outside the Russian Federation, including offerings of existing shares, which remain largely untested and subject to varying interpretations. Any challenges of such regulations or transactions consummated pursuant to them could have an adverse effect on the Offering and the Open Subscription and the MMK Group's ability to effect a similar equity offering in the future. From time to time, the MMK Group may not be in full compliance with Russian securities law reporting requirements. Violation of these reporting requirements could result in the imposition of fines or difficulties in registering subsequent share issuances. As a result, the MMK Group may be subject to fines or other enforcement measures, which could have a material adverse effect on the MMK Group's future prospects and the price of the Ordinary Shares and GDRs.

From 1 January 2009, the MMK Group may be required to present its financial statements under International Financial Reporting Standards as adopted by the European Union ("EU IFRS") or may be subject to additional reporting requirements, which may cause delays in the preparation of its financial information.

The MMK Group currently prepares its financial statements in accordance with U.S. GAAP. In December 2004, the European Parliament and Council of the European Union adopted Directive 2004/109/EC (the "Transparency Directive"). Following the implementation of the Transparency Directive, issuers with securities admitted to trading on a regulated market in the EEA (which do not have the benefit of an exemption), including the MMK Group following the completion of the Offering, will be required to prepare and publish financial statements prepared in accordance with EU IFRS or accounting standards determined to be equivalent to EU IFRS by the European Commission. On 4 December 2006, the European Commission published a decision permitting issuers whose registered office is located outside the EEA to apply U.S. GAAP (or certain other generally accepted accounting principles) to their annual financial statements until the financial years starting on or after 1 January 2009, and deferred the establishment of the equivalence definition and mechanism until 2008. Therefore, it is currently uncertain whether financial statements prepared under U.S. GAAP will be considered equivalent (or equivalent subject to remedies) to EU IFRS after 31 December 2008. Consequently, from 1 January 2009 the MMK Group may be required to prepare and publish its financial statements under EU IFRS or, if U.S. GAAP financial statements are considered equivalent but subject to remedies, to prepare and publish supplementary information as required by the equivalence mechanism. Whilst it continues to evaluate the basis on which its accounts should be prepared for future periods, the MMK Group has not conducted its analysis of the expected impact of reporting under EU IFRS. As U.S. GAAP currently differs in many respects from EU IFRS, applying EU IFRS to the MMK Group's consolidated financial statements may have a material impact on the MMK Group's reported results and financial position. Any requirements either to present financial statements under EU IFRS or present supplementary information in addition to U.S. GAAP financial statements may require additional expenses and may also cause delays in the preparation and publication of the MMK Group's results.

The lack of a properly regulated share registration system in the Russian Federation may harm share liquidity.

Ownership of shares in Russian joint stock companies is determined on the basis of entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in the Russian Federation. The FSFM and its predecessor, the Federal Commission on Securities Market, had issued regulations regarding the licensing conditions for the registrars maintaining such registers and the procedures to be followed by them when performing their functions. In practice, however, these regulations are not always strictly enforced and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a rigorously regulated share registration system in the Russian Federation, transactions in respect of MMK's Ordinary Shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or mere oversight by registrars incapable of compensating shareholders for their misconduct. Further, the Depositary, under the terms of the deposit agreements, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. This creates a risk of loss not normally associated with investments in other securities markets.

Consequently, any misconduct by MMK's registrar as a result of such lack of regulation or otherwise may put MMK's shareholders at risk and MMK's registrar may not be able to compensate its shareholders for any wrongdoing.

Shareholder rights provisions under Russian law may impose additional costs on MMK.

Russian law provides that shareholders, including holders of the Ordinary Shares of MMK, who vote against or who do not take part in voting on certain matters have the right to require that MMK purchase its Ordinary Shares at market value. The decisions that trigger this right to sell include: a reorganisation;

approval by shareholders of a "major transaction", which, in general terms, is a transaction involving property worth more than 50 per cent. of the book value of MMK's assets as of its last reporting date; and any amendment of the charter of MMK that limits shareholder rights.

MMK's obligation to purchase Ordinary Shares in these circumstances, which is limited to 10 per cent. of MMK's net assets, calculated in accordance with the Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on its business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and the GDRs.

GDR holders cannot withdraw Ordinary Shares from the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs until MMK files a placement notice with the FSFM, and a failure by MMK to file the placement notice would result in the newly issued Ordinary Shares being cancelled and reliance by GDR holders on MMK to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares.

Under Russian law, MMK must file a placement notice with the FSFM on the issuance in the global Offering of the newly issued Ordinary Shares in the form of GDRs. During the period between the Closing Date and the filing of the placement notice, GDR holders cannot withdraw the Ordinary Shares underlying any GDRs or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, as they would otherwise be able to do. In addition, if MMK does not file the placement notice, the subscription can be declared invalid. In that case, Russian law and the Deposit Agreement require MMK to refund the proceeds of the portion of the GDR Offering evidencing newly issued Ordinary Shares, without interest, to GDR holders pro rata to the number of cancelled GDRs, regardless of the then prevailing price of the GDRs and subject to applicable withholding taxes. In addition, the return of funds may be delayed due to Russian currency controls, banking or securities regulations or practices and may be prevented due to a change in such regulations or practices. Upon payment of such amounts, the Depositary will cancel, on a pro rata basis or on such other basis as it deems practicable in its sole discretion, the number of GDRs corresponding to the number of Ordinary Shares to which the placement notice relates. In addition, GDR holders who deposit Ordinary Shares from the Closing Date until the registration of the Placement Report bear the risk that the Depositary may reduce their holdings pro rata to the number of Ordinary Shares being cancelled or on such other basis as the Depositary determines.

Future sales of Ordinary Shares may affect the market price of the Ordinary Shares and the GDRs.

Sales, or the possibility of sales, by Mr Rashnikov of substantial numbers of Ordinary Shares in the public markets, including the Russian stock market, following this Offering could have an adverse effect on the market trading prices of the GDRs or could affect MMK's ability to obtain further capital through an offering of equity securities. Any subsequent equity offering by MMK may also affect the price of the Ordinary Shares and the GDRs.

Non-Russian resident shareholders may be unable to expatriate dividends paid on the Ordinary Shares.

Russian currency and currency control legislation currently provides that dividends paid on Ordinary Shares held by non-Russian residents may be paid in Russian roubles. MMK currently intends that dividends on Ordinary Shares will be paid in Russian roubles. In this case, the Depositary will also receive dividends in respect of the Ordinary Shares underlying GDRs in Russian roubles. These dividend payments may be converted into foreign currency and expatriated from the Russian Federation without restriction. However, this legislation is subject to change and there can be no assurance that dividend payments will not be subject to currency controls in the future.

U.S. holders may not be able to exercise their pre-emptive rights.

Generally, existing holders of Ordinary Shares of Russian companies are in certain circumstances entitled to pre-emptive rights pursuant to Russian law and the charter of MMK, as described in "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law". U.S. holders of GDRs may not be able to exercise pre-emptive rights for the Ordinary Shares represented by GDRs unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. MMK is unlikely to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such U.S. holders to exercise such pre-emptive rights and, if such exemption were available, MMK may not take the steps necessary to enable holders of GDRs to rely on it.

Under Russian law, the Depositary may be considered the owner of Ordinary Shares represented by the GDRs, in which case the Ordinary Shares could be subject to seizure in legal proceedings in the Russian Federation against the Depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognise a distinction between legal owners of securities, such as the Depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, the Ordinary Shares held by the Depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the Depositary that are unconnected with the Ordinary Shares. However, Russian law may not recognise a distinction between a legal owner and a beneficial owner of securities and, as a result, the Ordinary Shares held by the Depositary on behalf of the GDR holders may be subject to seizure in connection with legal proceedings that are unconnected with the Ordinary Shares.

Voting rights with respect to the Ordinary Shares underlying the GDRs may only be exercised in accordance with the terms of the Deposit Agreement governing the GDRs and applicable requirements of Russian law.

GDR holders will not have direct voting rights with respect to the Ordinary Shares underlying the GDRs. GDR holders may exercise voting rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement governing the GDRs and applicable requirements of Russian law. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of holders of GDRs.

In addition, there may be practical limitations on the ability of GDR holders to exercise their voting rights, for example, due to the additional procedural steps involved in communicating with the GDR holders through the Depositary. Upon notice of a shareholders' meeting by MMK, the Depositary is obliged, as soon as reasonably practicable thereafter and provided there are no UK, U.S. or Russian legal prohibitions, to mail to GDR holders notice of the meeting, copies of voting materials and a statement as to the manner in which instructions may be given by the GDR holders. In order to exercise their voting rights, GDR holders must instruct the Depositary to vote the Ordinary Shares represented by the GDRs they hold. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Ordinary Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the Ordinary Shares in the same manner.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (i) vote the Ordinary Shares represented by their GDRs on a cumulative basis, (ii) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called, or (iii) nominate candidates for the board of directors or the audit commission, or otherwise exercise the rights of Shareholders arising under applicable law. See "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law". If GDR holders wish to take such actions, they must request in a timely manner that their GDRs be cancelled and take delivery of the Ordinary Shares and thus become the owner of the Ordinary Shares on MMK's share register.

GDR holders and beneficial owners also will not be given the benefit of dissenting or abstaining shareholders' rights to put their Ordinary Shares to MMK under the circumstances described in "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law—Rights of Holders of Ordinary Shares" unless MMK has taken all steps necessary to ensure that this would not violate applicable law, including, without limitation, U.S. securities laws.

GDR holders may therefore have more difficulty in exercising their voting rights, or rights relating thereto, than holders of MMK's Ordinary Shares.

Holders of the Ordinary Shares or the GDRs may not benefit from double tax treaties in respect of the dividends.

Under Russian law, dividends paid to a non-resident holder of the Ordinary Shares or the GDRs will generally be subject to Russian profit tax at a rate of 15 per cent. for legal entities and organisations and to individual income tax at a rate of 30 per cent. for individuals. This tax may be reduced under the provisions of the relevant double tax treaty between the Russian Federation and the country in which the holder of the Ordinary Shares or GDRs is resident for tax purposes. However, Russian tax rules applicable to GDR holders are characterised by significant uncertainties and, until recently, an absence of interpretive guidance. See "Taxation—Russian Tax Considerations" for further details. In the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

In order to obtain a reduction of the dividend withholding tax rate under the double tax treaty between the Russian Federation and the country in which the holder of the Ordinary Shares or GDRs is tax resident, a non-resident holder of the Ordinary Shares or the GDRs that is a legal entity or organisation should provide MMK with an apostilled or legalised certificate of its tax residence issued by the competent authority of the country in which it is tax resident with an attached notarised translation into Russian. The confirmation needs to be renewed on an annual basis and provided to MMK before the first payment of dividends in each calendar year. In practice, both obtaining and submitting this certificate may be difficult, especially in the case of GDR holders. Obtaining the application of the treaty benefits may, therefore, be a time-consuming and administratively burdensome procedure and, as a practical matter, these benefits may be unavailable to some non-resident holders, including those residing in the United States or United Kingdom. See "Taxation—Russian Tax Considerations" for further details.

Capital gains from the sale of the Ordinary Shares or GDRs may be subject to Russian income tax.

Under current Russian tax legislation, capital gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs by non-resident holders (legal entities or organisations) will be subject to tax in the Russian Federation if MMK's immovable property located in the Russian Federation constitutes more than 50 per cent. of its assets. The determination of whether more than 50 per cent. of a company's assets consist of immovable property located in the Russian Federation is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in the Russian Federation does not currently, or will not, constitute more than 50 per cent. of MMK's assets.

If more than 50 per cent. of MMK's assets were to consist of immovable property located in the Russian Federation, then non-resident holders (legal entities or organisations) may be subject to:

- 24 per cent. withholding income tax on the capital gain realised from the sale of Ordinary Shares or GDRs, being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Ordinary Shares or GDRs; or

- 20 per cent. withholding income tax on the gross proceeds from the sale of the Ordinary Shares or GDRs.

Gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs that are circulated (i.e. listed and traded) on foreign stock exchanges on such stock exchanges by non-resident holders that are legal entities or organisations fall outside the scope of Russian tax. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from their sale, exchange or other disposition on the London Stock Exchange by non-resident legal entities or organisations that have no permanent establishment in the Russian Federation to which such sale, exchange or disposition could be connected, should not be subject to Russian withholding income tax and, hence, to taxation in the Russian Federation.

If a profit tax liability arises on the sale, exchange or other disposition of the Ordinary Shares or GDRs, the tax must be withheld by the Russian legal entity or foreign legal entity or organisation with a permanent establishment in the Russian Federation (though in practice Russian tax authorities may claim that an obligation to withhold exists for any registered representative office of a foreign legal entity in the Russian Federation) that acquires the Ordinary Shares or GDRs from a non-resident holder (legal entities and organisations). There is also a risk that such entities that are obligated to withhold tax on capital gains may not have sufficient information regarding MMK's percentage of assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the non-resident holders (legal entities and organisations) selling the Ordinary Shares or GDRs.

Where the buyer is neither a Russian entity nor a non-Russian entity or organisation with a permanent establishment in the Russian Federation (or, arguably, with any registered presence), the tax liability referred to above for the holder still exists, but there may be no practical mechanism to withhold the tax.

Gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs outside the Russian Federation by holders who are individuals not resident in the Russian Federation for tax purposes would not be considered Russian source income and therefore should not be taxable in the Russian Federation. However, as there is no definition of what should be considered to be a "sale in the Russian Federation" or "sale outside the Russian Federation", the Russian tax authorities have a certain amount of freedom to conclude whether transactions take place inside or outside the Russian Federation. Gains arising from sale, exchange or other disposition of the Ordinary Shares or GDRs in the Russian Federation by holders who are individuals not resident in the Russian Federation for tax purposes will be subject to tax either at source in the Russian Federation or based on a tax return which they may be required to submit to the Russian tax authorities. See "Taxation—Russian Tax Considerations".

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in the Russian Federation for persons qualifying for the relevant treaty benefits. See "Taxation—Russian Tax Considerations" regarding the details of the United States-Russian Federation Tax Treaty and the United Kingdom-Russian Federation Tax Treaty.

However, there is a risk that non-resident holders of Ordinary Shares or GDRs may not be able to benefit from double taxation treaties in respect of capital gains realised on such Ordinary Shares and GDRs. See "Taxation—Russian Tax Considerations".

Non-Resident and Resident Holders (individuals) of the GDRs may suffer from an increased effective rate of tax on dividends due to the lack of clarity in Russian tax law in respect of beneficial ownership and the difficulties in applying the treaties.

Russian tax law is silent as to whether the Depositary or the GDR holders must be viewed by the payer of dividends as the beneficial owner of dividends. Private clarifications by the Ministry of Finance suggest that the beneficial owners will be the GDR holders; however, these clarifications are not a statement of law and there can be no assurance that this position will be sustained in the future. If the Depositary rather than the GDR holder is deemed to be the legal owner of the dividends, in case the information on the beneficial owners of such dividends is not available or incomplete, MMK may be obligated to withhold income tax at a rate of 15 per cent. from dividend payments on Ordinary Shares represented by GDRs. As detailed in "Taxation—Russian Tax Considerations", individuals who are non-resident holders of GDRs may nevertheless have a filing obligation in respect of dividends received through the Depositary and be liable to additional individual income tax at a rate of 30 per cent., depending on the approach taken by the tax authorities at the time when such income is received. It is unlikely that the tax authorities would allow a credit for the 15 per cent. of tax already withheld at distribution.

A similar risk exists for a Russian resident holder. Individual resident holders of GDRs, who may be required to report the dividends in their tax returns, and pay additional tax on the declared amount at a rate of 9 per cent., and may likely be unable to reclaim the tax withheld at a rate of 15 per cent. by MMK initially.

Investors may have limited recourse against the MMK Group and the directors and executive officers of MMK because the MMK Group generally conducts its operations outside the United States and the United Kingdom and the majority of MMK's current directors and all of the members of MMK's Management Board reside outside the United States and the United Kingdom.

The MMK Group's presence outside the United States and the United Kingdom may limit investors' legal recourse against it. MMK is incorporated under the laws of the Russian Federation. The majority of MMK's current directors and all of the members of its Management Board reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of the MMK Group's assets and the assets of MMK's current directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon MMK or its directors and executive officers or to enforce U.S. or UK court judgments obtained against MMK or its directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or UK securities laws.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to their investment in the Ordinary Shares and GDRs. The Deposit Agreement provides for actions brought by any party thereto against MMK to be settled by arbitration in accordance with the rules of the London Court of International Arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors and Russian courts' inability to enforce such orders and corruption.

OVERVIEW OF THE OFFERING

Issuer	MMK, an open joint stock company incorporated under the laws of the Russian Federation.
Offering	The Offering consists of (i) an offering by MMK of 878,800,000 newly issued Ordinary Shares in the form of GDRs, with each GDR representing 13 newly issued Ordinary Shares not subscribed by MMK's existing shareholders in the Open Subscription, and (ii) an offering of 161,200,000 Ordinary Shares by the Selling Shareholder. MMK has authorised 1,450,000,000 newly issued Ordinary Shares to be placed as part of the Open Subscription. The Selling Shareholder had committed to offer up to 2,864,364,858 Ordinary Shares in the Offering. The Offering will consist of (i) an Offering of GDRs and Ordinary Shares outside the United States and the Russian Federation in reliance on Regulation S, (ii) an Offering of GDRs and Ordinary Shares within the United States to QIBs in reliance on Rule 144A and (iii) an Offering of Ordinary Shares in the Russian Federation. The Offering of Ordinary Shares and GDRs may be extended or revoked at any time without cause, and any trading that happens on a conditional basis prior to Admission may be revoked should Admission not occur and will be at the sole risk of the parties concerned.
Shareholders' Statutory Pre-Emption Rights	The Offering includes newly issued Ordinary Shares (in the form of GDRs) not subscribed by MMK's existing shareholders in the Open Subscription. The Open Subscription is an offering of Ordinary Shares to MMK's shareholders of record as at 15 December 2006, pursuant to such shareholders' statutory pre-emption rights under Russian law to subscribe for Ordinary Shares pro rata to their existing equity stake as at such date. MMK published a notice to such shareholders advising them of their statutory pre-emption rights on 3 April 2007. Such rights shall be exercisable over a period of 20 calendar days commencing on 3 April 2007. MMK has received an application from existing shareholders for the exercise by them of statutory pre-emption rights in respect of 166,685,894 Ordinary Shares, including by the Selling Shareholder in respect of 161,200,000 Ordinary Shares. See also "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law—Pre-emption Rights". Any Ordinary Shares subscribed for by MMK's existing shareholders shall be paid for at the offer price for the Ordinary Shares in the Offering as determined by the Board of Directors. See "—Offer Price". Shareholders exercising their statutory pre-emption rights must pay for the Ordinary Shares in same-day funds not later than five business days from the date of the disclosure of the Offer Price for such Ordinary Shares. Any Ordinary Shares not taken up by MMK's shareholders in the exercise of their statutory pre-emption rights have been offered to other investors in the Offering in the form of GDRs. Any Ordinary Shares taken up but not paid by MMK's shareholders in the exercise of their statutory pre-emption rights will be cancelled.
Selling Shareholder	Mintha Holding Limited, a company organised under the laws of Cyprus. See "Principal Shareholders and Selling Shareholder".

Managers	ABN AMRO Bank N.V. and NM Rothschild and Sons Limited (together trading as ABN AMRO Rothschild), Morgan Stanley & Co. International plc, Renaissance Securities (Cyprus) Limited and JSB Gazprombank (CJSC).
Ordinary Shares	Ordinary Shares in the share capital of MMK, each with a nominal value of RUB 1. See also "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law".
GDRs	Each GDR will represent 13 Ordinary Shares on deposit with the Custodian on behalf of the Depositary. The GDRs will be issued by the Depositary pursuant to a Deposit Agreement between MMK and the Depositary. The GDRs will be evidenced initially by master GDR certificates, each to be issued by the Depositary pursuant to the Deposit Agreement. The GDRs may not be surrendered for the purpose of withdrawal, and the Ordinary Shares to which such GDRs relate may not be withdrawn, until, in each case, MMK has filed with the FSFM a notification concerning the results of the issuance of the newly-issued Ordinary Shares. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the master GDR certificates. See "Terms and Conditions of the Global Depositary Receipts".
Depositary	The Bank of New York.
Over-allotment Option	The Selling Shareholder has granted to the Managers an Over-allotment Option to purchase or procure purchasers for up to 131,820,000 Ordinary Shares sold in the Offering in the form of GDRs. Such Over-allotment Option shall be exercisable on one or more occasions for the purpose of covering over-allotments that may be made in connection with this Offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the thirtieth day following the announcement of the offer price of the Offering upon written notice from the Lead Managers to the Selling Shareholder and to the extent not previously exercised by the Managers may be terminated by the Managers at any time. See "Plan of Distribution".
Offer Price	U.S.$0.961538 per Ordinary Share U.S.$12.50 per GDR.
Listing	Application has been made to the FSA for the admission of the GDRs to the Official List and to the London Stock Exchange for admission of up to 232,311,953 GDRs to trading to the Market. Application has been made to have the GDRs offered and sold within the United States in reliance on Rule 144A and designated eligible for The PORTAL Market of the NASDAQ Stock Market, Inc. The Ordinary Shares are listed on the RTS and MICEX.
Share capital	Prior to the Offering, the share capital of MMK consisted of 10,630,221,600 issued and outstanding Ordinary Shares. MMK's charter authorises the issue of up to 27,342,444,000 additional Ordinary Shares and, of this amount, the issuance of 1,450,000,000 Shares has been approved by the Board of Directors of MMK and registered with the FSFM. Following the Offering and Open

	Subscription (assuming that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised). MMK's share capital will consist of 11,670,221,600 issued and outstanding Ordinary Shares. The Ordinary Shares of MMK are subject to applicable provisions of Russian corporate law and MMK's charter and have the rights described under "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law".
Lock-Up	MMK, the Selling Shareholder and Fulnek Enterprises Limited have agreed that they will not, and will procure that none of their subsidiaries and no person acting on their behalf will, for a period of 180 days after the Closing Date, without the prior written consent of the Managers, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any shares of MMK or securities convertible or exchangeable into or exercisable for any shares of MMK or warrants or other rights to purchase shares of MMK or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities except pursuant to certain exemptions summarised in "Plan of Distribution" and detailed in full in the Underwriting Agreements. See "Plan of Distribution".
Voting Rights	Voting at a General Shareholders' Meeting is generally based on the principle of one vote per Ordinary Share, subject to certain exceptions described in "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law". For voting rights of holders of the GDRs, see "Terms and Conditions of the Global Depositary Receipts".
Dividend Rights	Holders of the Ordinary Shares will be entitled to receive amounts, if any, paid by MMK as dividends, subject to certain provisions. See "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law—Dividends and Dividend Rights" and "Dividend Policy and Market Information".
Taxation	For a discussion of certain Russian, United States federal and United Kingdom tax consequences of purchasing and holding the Ordinary Shares or GDRs, see "Taxation".
Use of Proceeds	MMK will receive approximately U.S.$976 million of the net proceeds from the Offering and the Open Subscription. The Selling Shareholder intends to use all of the proceeds (not including proceeds (if any) relating to the Over-allotment Option) received by it to subscribe for newly issued Ordinary Shares through exercising its statutory pre-emption rights in the Open Subscription and making payment within five business days of the announcement of the offer price for the Offering. MMK intends to use the net proceeds of the Offering and the Open Subscription for capital investments to be made as part of MMK's modernisation and investment programme and other general corporate purposes.

Payment and Settlement

The Ordinary Shares and the GDRs (other than the newly issued Ordinary Shares offered to MMK's shareholders pursuant to their statutory pre-emption rights as part of the Open Subscription) are being offered severally by the Managers, subject to receipt and acceptance by them of, and subject to their right to reject, any order in whole or in part.

The Depositary has applied to have the GDRs issued pursuant to Regulation S accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg and the GDRs issued pursuant to Rule 144A accepted for clearance through DTC.

In order to take delivery of the GDRs, investors must pay for them in U.S. dollar same-day funds on or prior to the closing date of the Offering and must have an appropriate securities account with Euroclear, Clearstream, Luxembourg and/or DTC. In order to take delivery of the Ordinary Shares, an investor should either have a direct account with MMK's share registrar, CJSC "RO Status", or a deposit account with CJSC Depositary Clearing Company ("DCC") or Not-for-Profit Partnership The National Depositary Center ("NDC"), or any other depositary that has an account with DCC or NDC or a direct account with MMK's share registrar. Any investor who chooses to hold the Ordinary Shares through either a direct account in MMK's shareholder register or through a share depositary account with a Russian-licensed depositary other than NDC or DCC will not be able to trade Ordinary Shares held in that way on MICEX or RTS. See "Settlement and Delivery".

The security identification numbers of the Ordinary Shares and the GDRs offered hereby are as follows:

Regulation S GDRs ISIN:	US5591892048
Regulation S GDRs Common Code:	029329079
Regulation S GDRs Sedol:	B1VX446
Rule 144A GDRs ISIN:	US5591891057
Rule 144A GDRs Common Code:	029328838
Rule 144A GDRs CUSIP Number:	559189105
Rule 144A GDRs Sedol:	B1VX435
London Stock Exchange GDR trading symbol:	MMK
PORTAL identification number:	P559189105
Ordinary Shares ISIN:	RU0009084396
RTS Ordinary Shares trading symbols:	MAGN/MAGNG
MICEX Ordinary Shares trading symbol:	MAGN
Ordinary Shares Sedol:	4562539

Trading of the Shares

Under Russian law, trading in the newly issued Ordinary Shares in the Offering is not permitted until a notification on the results of their issue signed, *inter alia*, by a Russian broker appointed by MMK in connection with the offering is filed with the FSFM. MMK has appointed a Russian broker, OOO Investment Company RFC (which is a subsidiary of MMK), in connection with the Offering and expects trading in the newly issued Ordinary Shares to be permitted on the day after such notification is filed, currently scheduled to be on or about 3 May 2007. See "Transfer Restrictions".

USE OF PROCEEDS

MMK is expected to receive gross proceeds of U.S.$999,999,925.60 from the Offering and the Open Subscription. After the payment of fees and expenses associated with the Offering (such as the fees and expenses of the Managers, legal counsel and the auditors, as well as road show, printing and other expenses), the net proceeds of the Offering and the Open Subscription received by MMK are expected to be approximately U.S.$976 million.

The Selling Shareholder intends to use all of the proceeds received by it (not including proceeds (if any) relating to the Over-allotment Option) to subscribe for newly issued Ordinary Shares in the Open Subscription through exercising its statutory pre-emption rights.

MMK intends to use the aggregate net proceeds of the Offering and the Open Subscription for capital investments to be made as part of MMK's modernisation and investment programme and other general corporate purposes.

DIVIDEND POLICY AND MARKET INFORMATION

Dividend Policy

Under the Federal Law on Joint Stock Companies, dividends may be declared and paid on Ordinary Shares only out of net profits (profit after taxation) calculated under Russian accounting principles, provided that:

- MMK's share capital has been paid up in full;
- the value of MMK's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of MMK's share capital, MMK's reserve fund and the difference between the liquidation value and the par value of MMK's issued and outstanding preference shares, if any;
- MMK has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- MMK is not, and will not become, insolvent as a result of the payment of the dividends; and
- other requirements of Russian legislation have been met, and Russian legislation imposes no further restrictions on the declaration and payment of dividends.

The Federal Law on Joint Stock Companies and MMK's charter set out procedures for the payment of dividends by MMK, pursuant to which MMK may declare dividends based on the results of its first quarter, six-month, nine-month and/or annual results, provided there are sufficient available profits to do so.

MMK's current dividend policy is designed to balance the interests of MMK's shareholders and other investors, whilst ensuring that any requirements for the further development and technical upgrading of the MMK Group's facilities can be financed from operating profits and borrowings.

MMK currently intends, subject to its net profits, to declare dividends amounting to not less than 15 per cent. of its consolidated net profit calculated on the basis of U.S. GAAP, taking into account any financing requirements for the further development of the MMK Group's facilities.

Any dividends MMK may pay in the future in respect of the Ordinary Shares evidenced by the GDRs will be declared and paid to the Custodian for the benefit of the Depositary in roubles. The Depositary will convert such dividends into U.S. dollars and distribute them to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the rouble and the U.S. dollar and to reduction due to deduction of depositary fees and expenses in connection with conversion to U.S. dollars. See "Terms and Conditions of the Global Depositary Receipts".

Dividend Payment History

The table below sets out certain information relating to MMK's shares and to dividends paid by MMK during the financial years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December		
	2004	2005	2006
Aggregate dividend paid (*U.S.$ million*)	14	947	1,077
Basic and diluted earnings per Ordinary Share *(U.S.$)*	0.125	0.095	0.140
Weighted average number of Ordinary Shares outstanding during the year (*thousand*)	7,198,738	8,250,930	10,160,990
Dividend per share(1) (*U.S.$*)	0.002	0.115	0.106

Note:

(1) Dividend per share has been calculated by dividing the aggregate dividend paid in such financial year by the weighted average number of Ordinary Shares outstanding during the year.

On 30 March 2007, the General Shareholders' Meeting of MMK announced dividends in respect of the fourth quarter of 2006 in the amount of RUB 0.891 (U.S.$0.034) per share, for a total amount of U.S.$364 million (calculated at the exchange rate prevailing on 30 March 2007), including U.S.$16 million payable to members of the MMK Group who hold Ordinary Shares (see "Principal Shareholders and Selling Shareholder"). Such dividend is required by MMK's charter to be paid to holders of Ordinary Shares on the relevant record date, being 12 February 2007 for the fourth quarter 2006 dividend, within one year of such meeting. Investors in the Offering will not, therefore, be entitled to this dividend.

MMK's Ordinary Shares have been listed on RTS and MICEX since July 2006, but are not actively traded, and the amount of Ordinary Shares held by shareholders other than those shareholders directly or indirectly controlled by Mr Rashnikov and other than treasury shares held by members of the MMK Group was less than 3 per cent. as at 12 February 2007. Amounts of dividends paid in respect of the Ordinary Shares in prior years may not be indicative of amounts of dividends that may be paid in respect of 2007 and future years.

Market Information

MICEX

The Ordinary Shares were admitted to trading in the list of non-listed securities on MICEX on 26 December 2005, however actual trading in the Ordinary Shares did not commence until 18 January 2006.

On 4 July 2006 the Ordinary Shares were transferred from the list of non-listed securities to Quotation List B of MICEX.

The annual high and low market prices for 2006 are shown below, expressed in Russian roubles.

Year	High (RUB) (date)	Low (RUB) (date)
2006*	23.6600 (on 7 February)	14.8500 (on 24 January)

Note:

(*) Trading began on 18 January 2006

The quarterly high and low market prices for 2006, and the first quarter of 2007, are shown below, expressed in Russian roubles.

Quarter	High (RUB) (date)	Low (RUB) (date)
Q1 2006*	23.6600 (on 7 February)	14.8500 (on 24 January)
Q2 2006	21.5200 (on 3 April)	19.0550 (on 13 June)
Q3 2006	19.7370 (on 10 July)	17.2630 (on 26 September)
Q4 2006	22.9620 (on 29 December)	18.0850 (on 2 October)

Note:

(*) Trading began on 18 January 2006

Quarter	High (RUB) (date)	Low (RUB) (date)
Q1 2007	27.1770 (on 29 March)	22.3490 (on 10 January)

The monthly high and low market prices for the six most recent months are shown below, expressed in Russian roubles.

Month	High (RUB) (date)	Low (RUB) (date)
October 2006	21.2370 (on 13 October)	18.0850 (on 2 October)
November 2006	20.9070 (on 28 November)	20.4200 (on 29 November)
December 2006	22.9620 (on 29 December)	20.0450 (on 11 December)
January 2007	22.9020 (on 31 January)	22.3490 (on 10 January)
February 2007	25.2970 (on 26 February)	23.2550 (on 1 February)
March 2007	27.1770 (on 29 March)	24.2660 (on 5 March)

RTS

The Ordinary Shares were admitted to trading in the list of non-listed securities on RTS on 26 December 2005, with the first trade occurring on 27 December 2005.

On 4 July 2006 the Ordinary Shares were transferred from the list of non-listed securities to the Quotation List B of RTS.

The high and low market prices for 26 December 2005 to 31 December 2005 are shown below, expressed in U.S. dollars:

Year	**High (U.S.$) (date)**	**Low (U.S.$) (date)**
2005*	0.4990 (on 27/28 December)	0.4900 (on 30 December)

Note:

(*) Trading began on 26 December 2005

The annual high and low market prices for 2006 are shown below, expressed in U.S. dollars:

Year	**High (U.S.$) (date)**	**Low (U.S.$) (date)**
2006	0.8700 (on 29 December)	0.4975 (on 10 January)

The quarterly high and low market prices for 2006, and the first quarter of 2007 are shown below, expressed in U.S. dollars:

Quarter	**High (U.S.$) (date)**	**Low (U.S.$) (date)**
Q1 2006	0.7450 (on 31 March)	0.4975 (on 10 January)
Q2 2006	0.7700 (on 4 April)	0.6900 (on 22 May)
Q3 2006	0.7300 (on 13 July)	0.6400 (on 15/18 September)
Q4 2006	0.8700 (on 29 December)	0.6600 (on 3/4 October)

Quarter	**High (U.S.$) (date)**	**Low (U.S.$) (date)**
Q1 2007	1.0700 (on 2 February)	0.8025 (on 15-18 January)

The monthly high and low market prices for the six most recent months are shown below, expressed in U.S. dollars:

Month	**High (U.S.$) (date)**	**Low (U.S.$) (date)**
October 2006	0.7775 (on 20 October)	0.6600 (on 3/4 October)
November 2006	0.7800 (on 10/14 November)	0.7300 (on 1/2 November)
December 2006	0.8700 (on 29 December)	0.7400 (on 1 December)
January 2007	0.8700 (on 22-24/29 January)	0.8025 (on 15-18 January)
February 2007	1.0700 (on 2 February)	0.8700 (on 1 February)
March 2007	1.0400 (on 30 March)	0.9000 (on 2 March)

On 30 March 2007, the closing price of the Ordinary Shares on MICEX was RUB 27.2990 and on RTS was U.S.$1.0400. There have been no significant trading suspensions of the Ordinary Shares on either MICEX or RTS since their initial trading began.

EXCHANGE RATE INFORMATION

The official currency of the Russian Federation, where the majority of the MMK Group's assets and operations are located, is the Russian rouble. However, as discussed under "Presentation of Financial and Other Information", the functional and presentation currency of its financial statements is the U.S. dollar. Part of the MMK Group's revenues and indebtedness as well as certain capital and operating expenditures are denominated in the Russian rouble or the euro. As a result, fluctuations in the value of the Russian rouble against the U.S. dollar may affect the MMK Group's results.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Russian rouble and the U.S. dollar. This information is based on the Central Bank of the Russian Federation's exchange rates which uses a composite pricing source. Fluctuations in the exchange rate between the Russian rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other information presented in this Prospectus.

	RUB per U.S.$1.00			
	High	Low	Period average(1)	Period end
Year ended 31 December				
2002	31.86	30.13	31.69	31.78
2003	31.88	29.25	30.61	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.28	28.78
2006	28.48	26.18	27.19	26.33
Month ended				
31 October 2006	26.97	26.73	28.87	26.75
30 November 2006	26.78	26.31	26.62	26.31
31 December 2006	26.39	26.18	26.29	26.33
31 January 2007	26.58	26.45	26.53	26.53
28 February 2007	26.55	26.16	26.34	26.16
31 March 2007	26.24	25.97	26.11	26.01
30 April 2007 (up to and including 20 April 2007)	26.01	25.75	25.90	25.77

Source: CBR

Note:

(1) The average of the exchange rates on the last business day of each month for the relevant annual period and on each business day for any other period.

This Prospectus contains conversions of certain amounts of Russian roubles into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, the U.S. dollar amounts have been translated from the Russian rouble amounts at the rate of RUR 26.33 = U.S.$1.00, which was the rate published by the CBR on 31 December 2006.

No representation is made that the Russian rouble or U.S. dollar amounts referred to in this Prospectus could have been or could be converted into Russian roubles or U.S. dollars, as the case may be, at the above exchange rates or at all.

See "Risk Factors—Risk Factors Relating to the MMK Group—Fluctuations in the foreign currency exchange rates of the Russian rouble and the euro, as compared to the U.S. dollar, may negatively impact the MMK Group's results of operations".

CAPITALISATION

The following table sets forth the MMK Group's consolidated cash and cash equivalents and capitalisation as at 31 December 2006 on a historic basis and as adjusted for this Offering and the Open Subscription (assuming that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised) and the application of the proceeds therefrom.

Prospective investors should read this table in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements, including the notes thereto, which are included elsewhere in this Prospectus.

	As at 31 December 2006	
	Actual	**As adjusted for this Offering and the Open Subscription(1)**
	(U.S.$ millions)	
Cash and cash equivalents	338	1,314
Long-term debt, net of current portion	606	606
Equity		
Common stock	363	399
Treasury stock at cost	(85)	(85)
Additional paid-in capital	254	1,194
Accumulated other comprehensive income	18	18
Retained earnings	3,477	3,477
Total Shareholders' equity	4,027	5,003
Minority interest	12	12
Total capitalisation(2)	4,645	5,621

Notes:

(1) Adjusted only to give effect to the application of the net proceeds of the Offering and the purchase of Ordinary Shares in the Open Subscription by the Selling Shareholder with the net proceeds the Selling Shareholder will receive from its sale of Ordinary Shares in the Offering (and not including proceeds (if any) of the Over-allotment Option).

(2) Total of long-term debt, net of current portion, minority interest and total shareholders' equity.

On 30 March 2007, the General Shareholders' Meeting of MMK announced dividends in respect of the fourth quarter of 2006 in the amount of RUB 0.891 (U.S.$0.034) per share, for a total amount of U.S.$364 million (calculated at the exchange rate prevailing on 30 March 2007), including U.S.$16 million payable to members of the MMK Group who hold Ordinary Shares (see "Principal Shareholders and Selling Shareholder"). Such dividend is required by MMK's charter to be paid to holders of Ordinary Shares on the relevant record date, being 12 February 2007 for the fourth quarter 2006 dividend, within one year of such meeting. Investors in the Offering will not, therefore, be entitled to this dividend.

Except as described above, there has been no material change in the total capitalisation of the MMK Group since 31 December 2006.

DILUTION

The MMK Group's net assets on a consolidated basis as at 31 December 2006 were U.S.$4,027 million (being total assets less the sum of total liabilities and minority interest), or U.S.$0.379 per Ordinary Share, based on 10,630,221,600 Ordinary Shares outstanding as at that date. Net assets per Ordinary Share is determined by dividing the MMK Group's total assets less the sum of total liabilities and minority interest by the number of outstanding Ordinary Shares.

After the placement of up to 1,040,000,000 newly issued Ordinary Shares (including in the form of GDRs) pursuant to the Offering and the Open Subscription, (assuming that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised), based on the offer price of U.S.$0.961538 per newly issued Ordinary Share (U.S.$12.50 per GDR), the MMK Group's net assets as at 31 December 2006 would have been U.S.$0.429 per Ordinary Share. This represents an immediate increase in the MMK Group's net assets per Ordinary Share of U.S.$0.05 to existing shareholders and an immediate dilution in the MMK Group's net assets per Ordinary Share of U.S.$0.53 to new investors who purchased Ordinary Shares, including in the form of GDRs.

Dilution per Ordinary Share, including in the form of GDRs, to new investors is determined by subtracting the MMK Group's net assets per Ordinary Share after the Offering and the Open Subscription (based on the assumptions described above) from the combined offer price paid by investors for the Ordinary Shares, including in the form of GDRs, to MMK and the Selling Shareholder in this Offering and the Open Subscription. The following table illustrates the dilution per Ordinary Share, including in the form of GDRs, to investors who purchased Ordinary Shares, including in the form of GDRs, in this Offering:

Offer price		U.S.$0.961538
Net assets per Ordinary Share as at 31 December 2006	U.S.$0.379	
Increase per Ordinary Share attributable to investors purchasing Ordinary Shares, including in the form of GDRs, in this Offering	U.S.$0.05	
Net assets per Ordinary Share, including in the form of GDRs, after the Offering		U.S.$0.429
Dilution per Ordinary Share, including in the form of GDRs, to investors purchasing Ordinary Shares, including in the form of GDRs, in this Offering		U.S.$0.53

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The MMK Group changed its auditors in 2006. The financial statements for the 2004 financial year (the "2004 Financial Statements") and the 2005 financial year (the "2005 Financial Statements" and, together with the 2004 Financial Statements, the "2004/2005 Financial Statements") were audited by KPMG Limited and the financial statements for the 2006 financial year (the "2006 Financial Statements") were audited by ZAO Deloitte & Touche CIS. This Prospectus presents financial information for the 2004, 2005 and 2006 financial years in the presentational format of the 2006 Financial Statements, which differs from that of the 2004/2005 Financial Statements only in the naming and classification of certain line items, all of which has been indicated by way of footnotes to the financial data derived from the 2004/2005 Financial Statements set forth in this Prospectus.

The tables below show the MMK Group's selected historical consolidated financial information as at and for the years ended 31 December 2004, 2005 and 2006. The consolidated statements of operations, cash flows and balance sheet data as at and for the years ended 31 December 2004, 2005 and 2006 have been derived from, and should be read in conjunction with, the Financial Statements included elsewhere in this Prospectus. The following selected consolidated financial information should also be read in conjunction with "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". The MMK Group's consolidated financial statements have been prepared in accordance with U.S. GAAP.

	Year ended 31 December		
	2004	**2005**	**2006**
	(Amounts in millions of U.S. dollars, except per share data)		
Consolidated statements of operations data			
Net revenue(1)	4,829	5,380	6,424
Cost of products sold (exclusive of depreciation and amortisation shown separately below)	(2,712)	(3,274)	(3,619)
Depreciation and amortisation	(169)	(173)	(188)
Selling and distribution expenses	(128)	(237)	(415)
Administrative and other expenses(2)	(213)	(262)	(285)
Social expenses:(3)			
Social asset construction costs(4)	(1)	—	(18)
Social and maintenance expenses(5)	(33)	(56)	(58)
Taxes other than income tax(6)	(48)	(59)	(63)
Loss on disposal of property, plant and equipment	(28)	(15)	(52)
Other operating income, net(7)	41	19	39
Income from operating activities	**1,538**	**1,323**	**1,765**
Equity in net gains/(losses) of affiliates(8)	1	—	(8)
Interest income	69	97	69
Interest expense	(65)	(64)	(63)
Net foreign exchange gain/(loss)(9)	78	(39)	132
Income before income tax and minority interest(10)	**1,621**	**1,317**	**1,895**
Income tax expense(11)	(389)	(372)	(468)
Income before minority interest	**1,232**	**945**	**1,427**
Minority interest	—	2	(1)
Net income	**1,232**	**947**	**1,426**
Basic and diluted earnings per common share (US$)	**0.125**	**0.095**	**0.140**

Notes:

(1) This line item is referred to as "Gross revenue" in the 2004/2005 Financial Statements.

(2) This line item is referred to as "Administrative expenses" in the 2004/2005 Financial Statements.

(3) This line item is referred to as "Social costs" in the 2004/2005 Financial Statements.

(4) This line item is referred to as "Social asset construction" in the 2004/2005 Financial Statements.

(5) This line item is referred to as "Operation and maintenance expenses" in the 2004/2005 Financial Statements.

(6) This line item is referred to as "Taxes other than income taxes" in the 2004/2005 Financial Statements.

(7) This line item combines two separate line items in the 2004/2005 Financial Statements: U.S.$11 million of "Change in allowance for doubtful accounts receivable and other provisions" and U.S.$8 million of "Other operating income" in the 2005 Financial Statements and U.S.$10 million of "Change in allowance for doubtful accounts receivable and other provisions" and U.S.$31 million of "Other operating income" in the 2004 Financial Statements.

(8) This line item is referred to as "Equity in income from affiliates" in the 2004/2005 Financial Statements.

(9) This line item is referred to as "Net foreign exchange (loss)/gain" in the 2004/2005 Financial Statements.

(10) This line item is referred to as "Income before tax and minority interest" in the 2004/2005 Financial Statements.

(11) This line item is referred to as "Income taxes" in the 2004/2005 Financial Statements.

	Year ended 31 December		
	2004	2005	2006
	(Amounts in millions of U.S. dollars)		
Consolidated cash flows data			
Net cash provided by operating activities	1,010	1,255	1,077
Net cash used in investing activities	(713)	(412)	(1,080)
Net cash provided by/(used in) financing activities	743	(1,587)	(779)

	As at 31 December		
	2004	2005	2006
	(Amounts in millions of U.S. dollars)		
Consolidated balance sheet data			
Short-term bank deposits(1)	209	—	228
Cash and cash equivalents	1,884	1,138	338
Total assets	5,416	4,854	5,689
Total debt (long-term and short-term)(2)	1,235	639	1,006
Total liabilities	1,677	1,166	1,650
Total shareholders' equity(3)	3,728	3,677	4,027

Notes:

(1) This line item is referred to as "Bank deposits" in the 2004/2005 Financial Statements.

(2) The MMK Group defines total debt as at 31 December 2006 as short-term borrowings, long-term debt including current portion, long-term capital lease obligations including current portion, and short-term bank overdrafts and as at 31 December 2005 and 2004 as short-term borrowings and long-term debt, including current portion, each as at the end of the relevant period.

(3) This line item is referred to as "Total stockholders' equity" in the 2004/2005 Financial Statements.

	As at and for the year ended 31 December		
	2004	2005	2006
	(Amounts in millions of U.S. dollars, except for percentages and ratios)		
Other Measures:			
Gross profit(1)	1,971	1,947	2,636
Gross profit margin(2)	40.82%	36.19%	41.03%
EBITDA(3)	1,786	1,459	2,076
Adjusted EBITDA(3)	1,735	1,511	2,005
Adjusted EBITDA margin(4)	35.93%	28.09%	31.21%
Operating income margin(5)	31.85%	24.59%	27.48%
Net income margin(6)	25.51%	17.60%	22.20%
Return on Equity (RoE)(7)	33.05%	25.75%	35.41%
Return on Capital Employed (RoCE)(8)	30.92%	30.58%	34.99%
Return on Average Capital Employed (RoACE)(9)	40.79%	25.58%	37.02%
Net debt (cash)(10)	(858)	(499)	440
Gearing(11)	33.03%	17.33%	24.91%
Net debt/adjusted EBITDA(12)	—	—	0.22x
Total debt/adjusted EBITDA(13)	0.71x	0.42x	0.50x

Notes:

(1) The MMK Group defines gross profit as net revenue ("Gross revenue" in the 2004/2005 Financial Statements) less the sum of cost of products sold (exclusive of depreciation and amortisation) and the portion of depreciation and amortisation attributable to production for the relevant period.

(2) The MMK Group defines gross profit margin as gross profit divided by net revenue ("Gross revenue" in the 2004/2005 Financial Statements) for the relevant period.

(3) EBITDA is defined as net income before interest expense, income tax expense (referred to as ''Income taxes'' in the 2004/2005 Financial Statements) and depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before minority interest, net foreign exchange (gains)/losses (referred to as ''Net foreign exchange loss/(gain)'' in the 2004/2005 Finanical Statements) loss on disposal of property, plant and equipment and equity in net losses/(gains) of affiliates (referred to as ''Equity in income from affiliates'' in the 2004/2005 Financial Statements). MMK believes EBITDA and adjusted EBITDA are meaningful for investors because they provide an analysis of the MMK Group's operating results excluding items that are non-recurring or unusual in nature and, accordingly, that they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the steel industry. EBITDA and adjusted EBITDA are not presentations made in accordance with U.S. GAAP and MMK's use of the terms EBITDA and adjusted EBITDA may vary from others in the industry. EBITDA and adjusted EBITDA should not be considered as alternatives to net income (loss), operating income or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance or operating cash flows or as a measure of liquidity. EBITDA and adjusted EBITDA have limitations as analytical tools, and investors should not consider the measures in isolation, or as a substitute for an analysis of the MMK Group's operating results as reported under U.S. GAAP. EBITDA and adjusted EBITDA are calculated as follows:

	For the year ended 31 December		
	2004	**2005**	**2006**
	(Amounts in millions of U.S. dollars)		
Net income	**1,232**	**947**	**1,426**
Income tax expense (''Income taxes'' in the 2004/2005 Financial Statements)	389	372	468
Interest income	(69)	(97)	(69)
Interest expense	65	64	63
Depreciation and amortisation	169	173	188
EBITDA	**1,786**	**1,459**	**2,076**
Minority interest	—	(2)	1
Net foreign exchange (gain)/loss (''Net foreign exchange loss/(gain)'' in the 2004/2005 Financial Statements)	(78)	39	(132)
Equity in net (gains)/losses of affiliates (''Equity in income from associates'' in the 2004/2005 Financial Statements)	(1)	—	8
Loss on disposal of property, plant and equipment	28	15	52
Adjusted EBITDA	**1,735**	**1,511**	**2,005**

(4) The MMK Group defines adjusted EBITDA margin as adjusted EBITDA divided by net revenue (''Gross revenue'' in the 2004/2005 Financial Statements) for the relevant period.

(5) The MMK Group defines operating income margin as income from operating activities divided by net revenue (''Gross revenue'' in the 2004/2005 Financial Statements) for the relevant period.

(6) The MMK Group defines net income margin as net income divided by net revenue (''Gross revenue'' in the 2004/2005 Financial Statements) for the relevant period.

(7) The MMK Group defines RoE as net income for the relevant period divided by total shareholders' equity (''Total stockholders' equity'' in the 2004/2005 Financial Statements) as at the end of the relevant period.

(8) The MMK Group defines RoCE as income from operating activities for the relevant period divided by the sum of total shareholders' equity (''Total stockholders' equity'' in the 2004/2005 Financial Statements), minority interest and total debt as at the end of the relevant period.

(9) The MMK Group defines RoACE as net income for the relevant period divided by the sum of total shareholders' equity (''Total stockholders' equity'' in the 2004/2005 Financial Statements) at the start of the relevant period plus total shareholders' equity (''Total stockholders' equity'' in the 2004/2005 Financial Statements) as at the end of the relevant period divided by two.

(10) The MMK Group defines net debt (cash) as total debt less cash and cash equivalents and short-term bank deposits (''Bank deposits'' in the 2004/2005 Financial Statements) as at the end of the relevant period. Net debt (cash) is calculated as follows:

	As at 31 December		
	2004	**2005**	**2006**
	(Amounts in millions of U.S. dollars)		
Total debt	1,235	639	1,006
Less cash and cash equivalents	(1,884)	(1,138)	(338)
Less short-term bank deposits (''Bank deposits'' in the 2004/2005 Financial Statements)	(209)	—	(228)
Net debt (cash)	**(858)**	**(499)**	**440**

(11) The MMK Group defines gearing as total debt divided by the sum of total shareholders' equity (''Total stockholders' equity'' in the 2004/2005 Financial Statements) and minority interest.

(12) The MMK Group defines net debt/adjusted EBITDA as net debt as at the end of the relevant period divided by adjusted EBITDA for the relevant period. 2004 and 2005 data is left blank as there was a net cash position for such periods.

(13) The MMK Group defines total debt/adjusted EBITDA as total debt as at the end of the relevant period divided by adjusted EBITDA for the relevant period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Financial Statements, which have been prepared in accordance with U.S. GAAP. For a description of the Financial Statements, see "Presentation of Financial and Other Information".

References to MMK in the following discussion are references to OJSC Magnitogorsk Iron & Steel Works on a stand-alone basis, not including its subsidiaries, and references to the MMK Group are references to OJSC Magnitogorsk Iron & Steel Works and its consolidated subsidiaries. References to the MMK Group's "domestic" market include the Russian Federation and the countries of the CIS, unless otherwise specified. References to the MMK Group's "export" market are to the rest of the world, not including the Russian Federation or the CIS countries.

The MMK Group changed its auditors in 2006. The financial statements for the 2004 financial year (the "2004 Financial Statements") and the 2005 financial year (the "2005 Financial Statements" and, together with the 2004 Financial Statements, the "2004/2005 Financial Statements") were audited by KPMG Limited and the financial statements for the 2006 financial year (the "2006 Financial Statements") were audited by ZAO Deloitte & Touche CIS. The following discussion presents financial information for the 2004, 2005 and 2006 financial years in the presentational format of the 2006 Financial Statements, which differs from that of the 2004/2005 Financial Statements only in the naming and classification of certain line items, all of which has been indicated by way of footnotes to the financial data derived from the 2004/2005 Financial Statements set forth in the following discussion.

In addition, the following discussion contains certain forward-looking statements that reflect the plans, estimates and beliefs of MMK. The actual results of the MMK Group may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, including "Risk Factors".

Overview

MMK is one of the top three steel producers in Russia by sales and volumes of crude steel produced in 2006, according to data published by Chermet. MMK manufactures and sells flat products, long products and downstream products, as well as billets and slabs, to a number of customers in industries such as pipe-making, automotive and construction, both in and outside of Russia and the CIS. In recent years, MMK has increased its focus on the Russian and CIS markets, and intends to further increase the proportion of its domestic sales, as the prices that MMK charges in the Russian and CIS market are generally higher than those it charges in the export market as a result of high demand in Russia and the CIS and the high costs (primarily transportation costs, tariffs and duties) to steel companies outside Russia of importing steel into Russia and the CIS. The MMK Group generated 62 per cent. of its revenues from sales within Russia and the CIS for the year ended 31 December 2006 compared with 61 per cent. in 2005 and 55 per cent. in 2004.

In recent years, MMK has also increased its focus on the production of value-added products, such as, flat products, polymer-coated steel, tin-plate and galvanised steel, which are used by customers in sectors of the Russian and CIS market, such as the growing pipe-making, automotive, construction and food industries. In line with this strategy, the MMK Group generated revenues from sales of galvanised steel with polymeric coating (generally sold to customers in the construction industry) of U.S.$168 million for the year ended 31 December 2006, compared with U.S.$148 million for the year ended 31 December 2005 and U.S.$50 million for the year ended 31 December 2004, and revenues from sales of unprocessed slabs decreased from U.S.$258 million for the year ended 31 December 2004 to U.S.$140 million for the year ended 31 December 2005 to U.S.$107 million for the year ended 31 December 2006. According to Chermet, in 2006 MMK was one of the largest Russian producers of downstream products (such as high quality cold-rolled band and tin-plate). The increase in domestic sales and in sales of value-added products has contributed to an increase in the MMK Group's revenue by 33.0 per cent. from U.S.$4,829 million in 2004 to U.S.$6,424 million in 2006, as well as growth in revenue from value-added products, which generally allows the MMK Group to generate higher operating margins.

For the year ended 31 December 2006, MMK's annual output of crude steel amounted to 12.5 million metric tons. This was an increase on the output of 11.4 million metric tons during 2005 and 11.3 million metric tons during 2004. Based on data derived from Metall Expert, in 2006, based on volume of steel sold, MMK claimed a 17 per cent. market share of sales in Russia. For the year ended 31 December 2006, MMK's sales (including to subsidiary traders) of steel products (including downstream products) amounted to 11.3 million metric tons, compared with 10.2 million metric tons in 2005 and 10.1 million metric tons in 2004. The volumes of steel sold by MMK in any year may vary from the volumes of steel produced in such year due to timing differences between production and shipment.

MMK uses significant amounts of raw materials, such as iron ore materials, coal and scrap, and energy, such as natural gas, in the production of its steel products. MMK Group's cost of products sold (exclusive of depreciation and amortisation) has increased by 33.4 per cent. from U.S.$2,712 million or 56.2 per cent. of revenue for the year ended 31 December 2004 to U.S.$3,619 million or 56.3 per cent. of revenue for the year ended 31 December 2006, principally driven by increased production volumes, as well as increases in prices of raw materials and energy. Direct materials (including raw materials and energy costs) comprised the largest portion of the MMK Group's total cost of products sold (exclusive of depreciation and amortisation) at 86 per cent. for the year ended 31 December 2006. MMK is taking steps to secure its supplies of raw materials, particularly iron ore and coking coal concentrate, in order to mitigate its reliance on one-year contracts with third-party suppliers. Accordingly, MMK is in the process of concluding a series of five- and ten-year contracts with its key suppliers. In March 2007, MMK entered into a ten-year supply contract for the provision of iron ore with ENRC. MMK is also seeking to achieve additional flexibility regarding its sourcing of raw materials. See "Business—Raw Materials and Energy" and "—Raw Materials and Energy—Iron ore".

The MMK Group is also continuing its modernisation and investment programme, scheduled to run until 2013, which is intended to continue to upgrade and improve the production capacity and efficiency of MMK's steel making facilities. Between 1996 and 2006, the MMK Group invested over U.S.$3.2 billion as part of its modernisation and investment programme. MMK's management expects the MMK Group to continue to make significant capital investments and expenditures going forward. See "—Key Factors Affecting the MMK Group's Results of Operations—Modernisation and investment programme", "—Liquidity and Capital Resources", "Business—Modernisation and investment programme" and "Business—Strategy".

At 10.9 per cent. of cost of products sold (exclusive of depreciation and amortisation), payroll costs comprised the second largest component of the MMK Group's cost of products sold (exclusive of depreciation and amortisation) in 2006, increasing by 35.4 per cent. from U.S.$291 million or 6.0 per cent. of revenue for the year ended 31 December 2004 to U.S.$394 million or 6.1 per cent. of revenue for the year ended 31 December 2006. Management believes that MMK's highly skilled employees are some of best-trained and most well-paid in the Russian steel industry, with the average salary of a MMK employee at 19,852 Russian roubles (U.S.$754) per month in 2006, which is expected to increase in the near term. In 2006, MMK's average headcount over the 12-month period was 26,396 employees, compared with 31,868 employees in 2004, while the MMK Group's average headcount over the year in 2006 was 55,572 employees, compared with 59,563 employees in 2004. See "Business—Employees".

Key Factors Affecting the MMK Group's Results of Operations

The MMK Group's management believes that the factors discussed below have significantly affected the development of the MMK Group's business, financial condition and results of operations since 1 January 2004 and that such factors will continue to have a material influence on the MMK Group's business, financial condition and results of operations in the future.

Russian macroeconomic trends

A significant proportion of the MMK Group's business is based in Russia and the CIS and the MMK Group generates over half its revenues in Russia and the CIS, with 55 per cent., 61 per cent. and 62 per cent. of its total revenue being generated from sales in each of 2004, 2005 and 2006, respectively. Accordingly, the MMK Group is exposed to the economic trends in Russia and the CIS, which are influenced by the effects of the policies adopted by the Russian government. These conditions have, and future policy changes could have, a significant effect on the MMK Group's results of operations and financial condition. Russian macroeconomic trends, such as the rate of GDP growth in the economy overall and the rate of growth in the particular markets in which the MMK Group's customers operate (e.g. automotive, pipe-manufacturing and construction) could significantly influence the MMK Group's performance. The table below sets forth certain key macroeconomic indicators relating to the Russian economy for the calendar years ended 31 December 2004, 2005 and 2006.

	Year ended 31 December		
	2004	2005	2006
GDP growth(1)	7.2%	6.4%	6.9%
Consumer price index(1)	11.7%	10.9%	9.0%
Unemployment rate(1)	8.3%	7.7%	6.9%
Per capita steel consumption in Russia(2)	197.6kg	202.1kg	242.3kg
Machinery and equipment production growth(3)	21.1%	(0.1)%	3.3%
Pipe industry growth(4)	(2.0)%	11.0%	18.0%
– including large-diameter pipe production growth	(8.0)%	32.0%	34.0%
Automotive industry growth(5)	8.3%	(2.5)%	10.8%

Notes:

(1) Source: Ministry of Economic Development of the Russian Federation.

(2) Source: Chermet. Preliminary data for 2006.

(3) Source: Federal State Statistics Service.

(4) Source: Metall Expert.

(5) Source: Avtoselkhozmash-Holding.

GDP growth rates in Russia since 2004 have remained relatively high compared to North America and Europe. The growth of Russia's economy during this period has resulted in increased demand for and spending on items, such as homes and automobiles, which, in turn, has resulted in greater demand for and prices of steel products, as well as greater demand for and prices of the raw materials and energy needed to produce steel.

The consumer price index and unemployment rates have been steadily decreasing in Russia since 2004, which has led to an increase in both consumer and corporate spending on items such as automobiles, homes and offices, which, in turn, has driven up demand for steel. Inflation in Russia has generally not had a material direct impact on the MMK Group's results of operations in recent years, primarily because the prices of the MMK Group's products and the raw materials which the MMK Group uses are strongly influenced by global trends.

Steel demand and pricing

The MMK Group's revenue is influenced by price fluctuations, both in the Russian and CIS steel markets, as well as internationally, in the sale of its steel products. MMK sells its products in the spot market as well through short- and long-term sales contracts, and such long-term contracts provide for periodic price adjustments (typically quarterly and monthly) based on the existing market prices of such products. Prices for the steel products that the MMK Group sells both inside and outside Russia and the CIS are generally determined by market forces, such as Russian, CIS and international supply and demand for iron and steel products, local production costs (including the costs of raw material inputs), transportation costs and other economic trends, such as those noted above.

Russian, CIS and international steel prices generally increased in 2006 and, according to a forecast by CRU International, this trend is expected to continue in 2007. MMK's management also expects steel prices in Russia and the CIS to generally remain higher than international prices for certain metal products in the near term due to the expected high growth in demand and the development of main steel-consuming sectors in Russia and the CIS, such as the automotive and pipe-manufacturing industries, as well as the higher costs related to the importation of steel into Russia as a result of tariffs, logistical costs and other transport-related expenses. MMK's average sales prices of slabs and billets, long products, flat products and downstream products in Russia and the CIS compared with the export market (net of transportation costs) in 2004, 2005 and 2006 are set forth in the table below:

Product type	2004[1] Total[4]	2004[1] Export	2004[1] Russia and CIS	2005[2] Total[4]	2005[2] Export	2005[2] Russia and CIS	2006[3] Total[4]	2006[3] Export	2006[3] Russia and CIS
				(U.S. dollars/metric ton)					
Slabs and billets	361	364	290	327	327	378	353	353	356
Long products	389	309	398	412	350	417	428	362	435
Flat products	413	374	464	455	401	533	464	413	533
Downstream products	569	519	593	721	538	779	755	523	824
Total[4]	432	386	478	485	404	567	496	415	566

Notes:

(1) Prices calculated using an average Russian rouble-U.S. dollar exchange rate for 2004 of 28.81:1.00.

(2) Prices calculated using an average Russian rouble-U.S. dollar exchange rate for 2005 of 28.28:1.00.

(3) Prices calculated using an average Russian rouble-U.S. dollar exchange rate for 2006 of 27.19:1.00.

(4) Weighted average of export and Russia and CIS average prices.

Within the context of growing demand and a positive pricing environment for steel, MMK's management expects to increase steel production and shipment levels in 2007, as it increases its production capacity, and expects to increase the portion of its sales in the Russian and CIS markets. As a result, in 2007, MMK expects to continue to increase the proportion of its net revenue that is generated from sales within Russia and the CIS.

Russian and CIS sales

The MMK Group maintains a strong presence in the Russian and CIS market, where it focuses on the sale of long products, hot-rolled and cold-rolled products and downstream products, such as galvanised products, tin-plate and steel products with polymeric coating. The MMK Group's sales in the Russian and CIS market constituted 62 per cent. of the MMK Group's net revenue in 2006. In the Russian and CIS market, in the three years ended 31 December 2004, 2005 and 2006, the MMK Group has benefited from good market conditions, rapid growth in demand and low transportation costs. MMK's management expects the Russian steel industry to continue to benefit from increasing domestic demand for steel, especially for value-added products from the construction, energy and automobile sectors. For example, the establishment by foreign car makers of production facilities in Russia in order to address growing Russian demand for their vehicles and the construction of several new oil and gas pipelines, among other things, are expected to increase the demand in Russia and the CIS for coated steel and large-diameter pipe plate, respectively. As the MMK Group continues to increase its focus on downstream products, MMK expects that the MMK Group will sell the majority of those products in the Russian and CIS market. In 2006, domestic consumption of steel products rose approximately 16 per cent. year-on-year according to Metall Expert, and MMK's management expects domestic consumption to continue to grow, driven by growth in housing and industrial construction, the development of processing industries and railway transport and the upgrading of rolling stock. MMK's management expects that MMK's focus on increased production volumes, especially of value-added products, will result in increased costs and capital expenditures, as more raw materials and energy are needed to increase production volumes and more investment is needed to replace or modernise production facilities. See "—Costs" and "—Modernisation and investment programme".

International export sales

The MMK Group's sales outside of Russia and the CIS comprised 45 per cent., 39 per cent. and 38 per cent. of net revenue in 2004, 2005 and 2006, respectively. According to IISI, global demand for steel has increased by an average of 8 per cent. per annum for the past three years, and global demand will depend on a number of factors, including the rate of economic growth in Asia, particularly in China, and the rate of world economic growth generally. China's increasing demand for steel in recent years has led to the rapid development of the steel industry in China, which has turned China from a net importer of steel to a net exporter of steel in 2006. According to the Iron and Steel Statistics Bureau, Chinese steel exports in 2006 reached 49.2 million metric tons, an increase of 91 per cent. over the 25.7 million metric tons that were exported in 2005. Chinese steel imports fell to 18.6 million metric tons, down 31 per cent. from the 26.8 million metric tons imported in 2005. Notwithstanding the decrease in Chinese imports, MMK's management expects that the MMK Group will continue to benefit from the general increase in global demand for steel.

Cost of products sold

Direct materials

The MMK Group uses substantial amounts of raw materials in order to manufacture its products, in particular iron ore materials, coal and scrap. The MMK Group relies on external suppliers for a number of its key raw materials. Prices for almost all of the raw materials that the MMK Group uses increased significantly in 2004, with iron ore prices continuing to increase in the first half of 2005 while coal prices decreased in 2005 and remained relatively stable in 2006. Principally driven by higher production volumes, the MMK Group's cost of products sold (exclusive of depreciation and amortisation) increased by 33.4 per cent. between 2004 and 2006 from U.S.$2,712 million in 2004 to U.S.$3,274 million in 2005 and to U.S.$3,619 million in 2006; however, as a percentage of revenue, cost of products sold (exclusive of depreciation and amortisation) has remained relatively constant at 56.2 per cent. of revenue in 2004 compared with 60.9 per cent. of revenue in 2005 and 56.3 per cent. of revenue in 2006.

In the past, raw materials have generally been supplied under one-year contracts and the prices for and volumes of such materials were determined on a periodic basis, typically annually or quarterly. The MMK Group has recently entered into several five- and ten-year contracts for the supply of some of its raw materials. These contracts generally provide for relatively fixed volumes, with prices generally revised annually on the basis of global market prices. See "Risk Factors—Risk Factors Relating to the MMK Group—MMK has limited ability to reduce the volumes of iron ore that it is required to purchase under its long-term supply contract with ENRC (an affiliate of SSGPO), in the event that MMK's production levels decline".

Iron ore

In 2006, MMK used approximately 15.7 million metric tons of iron ore. The majority of the iron ore raw materials (concentrate and pellets) that MMK requires is supplied by SSGPO. In 2006, SSGPO supplied approximately three-quarters of MMK's total iron ore consumption, including the consumption of MMK's internally generated iron ore materials. MMK is SSGPO's main customer, purchasing approximately 63 per cent. of SSGPO's total output in 2006. MMK's alternative sources for iron ore are ore dressing plants located in the central part of the Russian Federation and the Urals, with which MMK has historically concluded one-year supply contracts.

Although MMK suffered an interruption of iron ore supply from SSGPO during 2005 during a contract renegotiation and had to purchase its iron ore from other suppliers in Russia and the CIS at higher prices, it believes that its long-term relationship with SSGPO, combined with the quality and cost of the iron ore provided, makes it a desirable strategic partner for MMK. In March 2007, MMK entered into a ten-year supply contract with ENRC (an affiliate of SSGPO) which MMK believes will help to secure its iron ore supply over the contractual period. Subject to limited adjustments, the total ore to be supplied over the term of the contract is expected to amount to approximately 143.6 million metric tons and the contract provides that MMK will purchase a certain minimum volume of iron ore per annum. The price payable in respect of the iron ore supplied under the contract is agreed annually on the basis of generally prevailing world FOB prices published in the reports of Tex Report Limited and, in the event of multiple reports published in such period, the average of the prices published in such reports. See "Risk Factors—Risk Factors Relating to the MMK Group—MMK has limited ability to reduce the volumes of iron ore that it is required to purchase under its long-term supply contract with ENRC (an affiliate of SSGPO), in the event that MMK's production levels decline".

To supplement its purchases of iron ore from third parties, MMK has recently made strategic acquisitions of iron ore sources, such as its acquisition of a licence to develop the Prioskolsky iron ore deposit in December 2006 and its purchase of a 51 per cent. stake in OOO Bakalskoye Rudoupravleniye, a Urals-based iron ore producer, in January 2007. See "Business—Raw Materials and Energy".

MMK also owns iron ore reserves at open-cast mines near Mount Magnitnaya and in Malyi Kuybas which in 2006 provided approximately 10 per cent. of MMK's total iron ore consumption. In addition, MMK also from time to time acquires iron ore in the Russian market at market prices. See "Business—Raw Materials and Energy".

Coal

In 2006, MMK used approximately 7.3 million metric tons of coking coal concentrate, and in 2006, approximately 83 per cent. of this came from the Kuznetsk coal basin in Kuzbass in the Russian

Federation. Coal is sold to MMK at prices below average global prices because of (i) the lower transportation and logistics costs for coal suppliers when they sell to domestic customers compared with export customers and (ii) discounts provided to MMK as a result of MMK's long-term relationships with and purchase of large volumes from certain coal suppliers. In 2006, MMK also purchased coal from the Karaganda coal basin in Kazakhstan, as well from the Yakutiya region of the Russian Federation.

In 2006 and 2007, MMK entered into five-year contracts for the supply of coal concentrate, including five-year contracts with OOO Raspadsky Ugol, OOO Kuzmetugol, CJSC Sibuglemet and OOO TD Mechel. MMK expects that these contracts will provide near to 80 per cent. of the MMK Group's demand for coal concentrate for coking based on 2004 to 2006 production levels.

See "Business—Raw Materials and Energy".

Limestone

MMK sources all of its limestone from MMK's own mines, which allows MMK to control its supply and cost of supply. MMK believes that it is able to produce limestone at lower cost than purchasing equivalent supplies at market prices.

Other materials

MMK also uses other raw materials, such as ferroalloys and scrap, which it sources from designated suppliers at market prices.

MMK's management expects prices for iron ore, coal and scrap to remain high in 2007, due to continued price growth, as increased consumption of raw materials by the Russian steel industry results in continued high demand. However, MMK's management believes that steel costs per metric ton should remain relatively stable, as higher production volumes and efficiency and output gains arising as a result of its modernisation and investment programme are expected to partially offset increasing prices of raw materials.

Natural gas

The cost of natural gas is also a significant portion of the raw materials costs of the MMK Group and in 2006, MMK consumed 4.19 billion cubic metres of natural gas. MMK's natural gas is principally supplied by OOO Chelyabinskregiongas, an affiliate of Gazprom, but it also makes purchases from an independent gas supplier, OJSC Novatek. MMK has entered into a contract with OOO Chelyabinskregiongas for the supply of approximately 3,057 billion cubic metres of natural gas annually and a long-term contract with OJSC Novatek for the supply of 1,250 billion cubic metres of natural gas annually, in each case at prices to be revised annually based upon prevailing market prices. Natural gas prices for the Russian domestic market are regulated by the Russian government and these prices have been rising over the last few years. Although Russian gas prices generally remain significantly lower than those in Western Europe, the price of natural gas for MMK increased by a compound annual rate of 35.9 per cent. from the beginning of 2004 through to the end of 2006. This increase was driven, in large part, by Russia's agreement with the European Union in May 2004 to raise domestic natural gas prices to U.S.$37-42 per thousand cubic metres by 2006 (which has been achieved) and to U.S.$49-57 per thousand cubic metres by 2010. From 1 January 2007, the regulated price of natural gas was set at U.S.$49.76 per thousand cubic metres for 2007.

If the regulated price of natural gas continues to increase, as is currently anticipated to be the case, if Gazprom's domestic prices for industrial consumers of its natural gas are set at market rates, if steel companies are required to purchase a portion of their gas requirements at prices above the regulated prices, or if the MMK Group is required to source a greater proportion of its gas from independent suppliers at market rates and MMK is not able to pass along these higher rates to customers through increases in its steel prices, the increase in natural gas prices would have a negative impact on its results of operations. See "Risk Factors—Risks Factors Relating to the MMK Group—The MMK Group may be subject to increased prices and supply disruptions as a result of its dependency on a limited number of key energy suppliers" and "Business—Raw Materials and Energy". However, MMK's management expects that improvements to MMK's production efficiencies will help to partially offset the expected increase in energy costs. See "Business—Modernisation and investment programme" and "—Modernisation and investment programme".

Other expenses

Railway transport is under government ownership in Russia and the MMK Group is dependent on the state-owned railways for delivery of raw materials. For the delivery of its raw materials, MMK relies predominantly on the rail freight network operated by Russian Railways, which is a state-owned company scheduled for partial privatisation after 2010, which could lead to increased tariffs. The Russian monopoly providers regularly increase prices for their services at a rate that may be higher than the rate at which the MMK Group is able to increase the price of its steel products. From 2004 to 2007, the price of railway transport will have increased by at least 48.3 per cent. See "Risk Factors—Risks Factors Relating to the MMK Group—Disruption in rail transport and increased rail costs could significantly hinder the MMK Group's operations and product distribution in the Russian Federation" and "Business—Transportation of products".

Payroll

MMK Group's non-management labour costs have also increased over the past three years and are expected to continue their upward trend. MMK's management believes that MMK's highly skilled workforce is one of the best paid in the industry in Russia. In 2006, the average salary of a MMK employee was 19,852 Russian roubles (U.S.$754) per month. MMK is committed to being a leader in the training and compensation of employees. In the first quarter of 2007, the average monthly salary of a MMK employee increased by 8.8 per cent. from 2006 average salary levels and, for the year 2007, the average monthly salary of a MMK employee is expected to increase by a total of approximately 25 per cent. over 2006 average salary levels.

Selling and distribution costs

Transportation costs of finished products

At present, all of MMK's products are transported by rail to customers or to seaports in St. Petersburg, Novorossiysk, Vladivostok, Astrakhan and Eisk. MMK effectively controls 47 per cent. of the voting stock of OJSC Vladivostok Sea Trade Port. The majority of MMK's export steel products are sold under cost and freight terms (whereby delivery of MMK's steel products to the named destination port is at MMK's expense, with the buyer responsible for insurance, import customs clearance and other costs and expenses). MMK relies predominantly on the rail freight network operated by Russian Railways, a state-owned company, for the distribution of its steel products to customers within Russia and to the Russian seaports. The Russian government sets rail tariffs (which have been increasing in recent years) and may further increase these tariffs in the near to medium term, which will increase MMK's transportation costs, possibly significantly. In addition, if Russian Railways is privatised (which may occur after 2010) or the railways are significantly upgraded, tariffs could increase further. In the future, MMK intends to increase exports of products under cost and freight terms, which MMK believes will optimise the transportation costs of its exported steel products, by allowing MMK to have control over transportation and thereby to participate in negotiations over freight pricing.

Cost of export sales through network of subsidiary traders

All of MMK's export sales are made through a network of traders in various parts of the world. In 2005 and 2006, the largest export purchasers of steel produced by MMK were MMK Metal Limited, MMK Trading AG and MMK Steel Trade AG, the latter two subsidiaries of the MMK Group. For the year ended 31 December 2006, these subsidiaries of the MMK Group together accounted for 89 per cent. of MMK's export sales by volume, representing a significant increase from 64 per cent. in 2005 and 20 per cent. in 2004 (this percentage is based on the total volume of export sales in each of the years described). This increase has been driven by MMK's decision to increase the use of subsidiaries of the MMK Group as the principal traders for its products sold in the international export market, primarily in order to reduce its credit risk to third-party traders. As a result, however, due to the increasing size and importance of sales through subsidiary traders, MMK's selling and distribution expenses have also increased significantly in 2005 and 2006. In 2006, sales to a third-party trader, MMK Metal Limited (which is not a subsidiary of the MMK Group), represented 3 per cent. of the MMK Group's total revenue compared with 13 per cent. in 2005 and 31 per cent. in 2004. The consolidation of the revenues of the subsidiary traders also had a positive impact on the MMK Group's net revenue in 2005 and 2006.

Modernisation and investment programme

MMK began to implement its modernisation and investment programme at the end of the 1980s, based on technologies used in the international markets and co-operation with internationally recognised engineering firms. The pace of MMK's modernisation strategy has largely been dictated by the availability of MMK's own funds. MMK believes it has one of the most modern steel production facilities in Russia. Between 1996 and 2006 MMK's aggregate capital expenditure (investments including those in intangible assets) was over U.S.$3.2 billion, and for each of the years ended 31 December 2004, 2005 and 2006 MMK invested U.S.$407 million, U.S.$580 million and U.S.$725 million, respectively. In 2006, approximately 15 per cent. of committed capital expenditures was spent on maintenance, 64 per cent. on cost reduction and expansion of slab production facilities and 21 per cent. on expansion of value-added production facilities. During the financial year ending 31 December 2007, MMK expects to spend approximately U.S.$782 million on planned capital expenditures related to the modernisation and investment programme, with approximately 24 per cent. of this amount going towards maintenance, 44 per cent. going towards cost reduction and expansion of slab production facilities and 32 per cent. going towards expansion of value-added production facilities. In 2008, MMK expects to spend approximately 11 per cent. of its committed capital expenditures on maintenance, 33 per cent. on cost reduction and expansion of slab production facilities and 56 per cent. on expansion of value-added production facilities. Over the period from 2007 through to the end of 2013, MMK is currently planning to invest over U.S.$5.2 billion on its capital projects, approximately U.S.$1.8 billion of which will be spent on projects currently underway as well as projects for which contracts have been executed. Through these measures MMK currently expects to increase its production capacity to up to 15 million metric tons of commercial steel products per annum by 2013.

The table below sets forth MMK's planned capital expenditures (including VAT) from 2007 to 2013. The costs of projects take into account customs duties for imported equipment. Figures are budgeted estimates of MMK as of 31 December 2006 only. Actual expenditure and timing will vary depending on external factors, such as exchange rate fluctuations, and MMK's ability to generate funding for the projects.

2007	2008	2009	2010	2011	2012	2013
			(millions of U.S. dollars)			
782	954	958	884	773	500	382

MMK's modernisation and investment programme between 2007 and 2013 provides for upgrading its existing facilities and expanding its downstream capacities as follows:

Project	Approximate costs(1)(2)
	(millions of U.S. dollars)
Sintering and mining treatment operations	269
Limestone-dolomite production	58
Coke chemical production	463
Furnace production	750
Steel-making	467
Rolling	2,239
Power utilities	671
Other	316
Total	**5,233**

Notes:

(1) Cost of the projects is given taking into account customs duties for imported equipment and VAT.

(2) Figures are budgeted estimates of MMK as of 31 December 2006 only. Actual expenditure and timing will vary depending on external factors, such as exchange rate fluctuations and MMK's ability to generate funding for the projects.

In particular, MMK is planning to continue upgrading its capital assets, including increasing the use of the electric arc furnaces in its steel-casting shops to improve the structure of its production costs through reduced dependence on iron ore and increased usage of scrap. Other planned production investments include the upgrading of hot mills 2000 and 2500, construction of a second hot galvanising line, construction of a plate mill and investment in the cold-rolling shops to allow the manufacture of higher grade cold-rolled products. MMK is also pursuing a number of projects focused on reducing costs, such as investment in its sinter production facilities and by-product coke production and continued modernisation of its blast furnaces. MMK also expects the MMK Group to make specific investments aimed at reducing the environmental impact of its operations. In particular, MMK plans to invest in converter gas and iron-bearing waste products use, and the reconstruction of existing, and the building of new, facilities for atmosphere and water protection.

MMK's management expects increasing capital expenditures associated with the MMK Group's modernisation and investment programme to generally drive up depreciation and amortisation charges in the near to medium term. However, the MMK Group's ongoing development of its production facilities, with its associated closing and opening of various property, plant and equipment, may have the effect of offsetting, at least in part, increases in depreciation and amortisation expenses.

Exchange rates

The MMK Group uses the U.S. dollar as its functional and reporting currency for financial reporting purposes. The majority of the MMK Group's operations are based in Russia and a significant portion of its sales are made in Russian roubles. As the MMK Group's export revenues are generally denominated in U.S. dollars, while its costs are generally denominated in roubles, future exchange rate fluctuations will affect its results of operations and financial position. In addition, to the extent that the MMK Group pays expenses in one currency and obtains payment for its products and services in another currency, its profit margins may be affected by exchange rate fluctuations and, to the extent the MMK Group borrows in a foreign currency, it will be exposed to any devaluation of the rouble.

Monetary assets and liabilities are remeasured into U.S. dollars at the rate prevailing at each balance sheet date. The MMK Group therefore is subject to foreign currency remeasurement risk on transactions and borrowings that are denominated in a currency other than the U.S. dollar. As of 31 December 2006, the MMK Group had total debt of U.S.$1,006 million, of which U.S.$898 million was denominated in U.S. dollars, U.S.$104 million was denominated in Russian roubles and U.S.$4 million was denominated in euro. Non-monetary assets and liabilities are remeasured into U.S. dollars at historical rates. Revenues, expenses and cash flows are remeasured into U.S. dollars at rates which approximate actual rates at the date of the transaction. Remeasurement differences resulting from the use of these rates are included in the consolidated statements of operations.

The Russian rouble is not readily convertible outside Russia. Within Russia, official exchange rates are determined daily by the Central Bank of the Russian Federation. Market rates may differ from the official rates although these differences fall generally within narrow parameters. The remeasurement of amounts recorded in Russian roubles into U.S. dollars should not be construed as a representation that the Russian rouble amounts have been, could be, or will in the future be convertible into U.S. dollars at the exchange rates used or at any other exchange rate.

For balance sheet amounts as of 31 December 2004, 2005 and 2006, exchange rates of 27.75, 28.78 and 26.33 Russian roubles to the U.S. dollar, respectively, have been used for remeasurement purposes. For statement of operations and statement of cash flow purposes, the annual weighted average exchange rates of 28.83, 28.26 and 27.32 Russian roubles to the U.S. dollar for the years ended 31 December 2004, 2005 and 2006, respectively, were used for remeasurement into U.S. dollars. The strengthening of the U.S. dollar against the Russian rouble as of 31 December 2005 compared with the U.S.$-Russian rouble exchange rate as of 31 December 2004 negatively impacted the MMK Group's balance sheet due to large deposits held in Russian roubles; conversely, the weakening of the U.S. dollar relative to the Russian rouble in 2006 benefited the MMK Group due to MMK holding large Russian rouble deposits. See "—Quantitative and Qualitative Disclosure on Market Risk—Foreign currency exchange risk" below.

Derivative instruments, consisting primarily of foreign currency forward and option contracts, have been utilised by the MMK Group since 2006 to manage its exposure to fluctuations in foreign exchange rates. The MMK Group does not enter into foreign currency hedging contracts related to its investment in affiliated companies. See "—Quantitative and Qualitative Disclosure on Market Risk" and "—Critical Accounting Estimates and Policies—Derivative financial instruments and hedging activities".

The table below sets forth the nominal exchange rate and real Russian rouble appreciation against the U.S. dollar in terms of percentage in 2004, 2005 and 2006.

	Year ended 31 December		
	2004	2005	2006
Real Russian rouble appreciation against U.S. dollar(1)	15.1%	10.8%	10.7%
Nominal Russian rouble appreciation against U.S. dollar	6.5%	1.9%	4.0%

Source: CBR

Note:

(1) Real Russian rouble appreciation against the U.S. dollar is consumer price index adjusted for nominal exchange rate changes over the same period.

Environmental costs

The MMK Group is restoring land disrupted by abandoned iron ore open-cast mines at Mt. Magnitnaya. Pursuant to an approval issued by state authorities, MMK is currently using production waste to fill the open-cast mines under the condition that the content of toxic elements in the waste does not exceed permissible levels. The amount of waste produced by MMK where the toxic element is higher than the permissible level is insignificant. However, where such waste does exist, it is transferred for disposal by specialised companies having relevant permits. MMK expects future expenses for reclamation of land disrupted by iron ore open-cast mines to be immaterial to the results of operations of the MMK Group. Any environmental costs are included into the MMK Group's operating expenses and are expensed as incurred.

New environmental regulations are currently under consideration in Russia and the MMK Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and extent of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. In addition, as part of its modernisation and investment programme, MMK expects the MMK Group to make further investments to reduce its environmental footprint in the region and to ensure that it is able to comply with increasingly restrictive environmental standards, including those arising out of the implementation of the Kyoto Protocol.

Trade restrictions

International sales of rolled steel by the MMK Group are subject to various controls and regulations. A brief description of protective measures in effect in the MMK Group's key export markets is set forth below:

- the European Union market is protected by quotas. The quotas have historically been raised by 2 per cent. to 2.5 per cent. each year. In addition, after the European Union enlargement in 2004, the quotas were raised by an average mean of supplies to the new European Union countries for the last three years; and
- the United States applies quota restrictions and price restrictions. A minimum price is set by the United States.

These and other trade barriers, such as anti-dumping duties and tariffs, to which the MMK Group's products may be subject from time to time, can affect the demand for the MMK Group's products by effectively increasing the prices for those products compared to products available from sources other than Russia. See "Regulation of the Steel Industry in Russia—Trade Barriers and Anti-Dumping Regulations" and "Risk Factors—Risk Factors Relating to the MMK Group—An increase in existing trade barriers or the imposition of new trade barriers in the MMK Group's principal export markets could cause a significant decrease in the demand for its products in those markets".

Seasonality

The MMK Group does experience a limited effect of seasonality on its results of operations.

Revenue

MMK typically experiences a slowing of demand and thus a reduction in revenues in the first and fourth quarters of the financial year as a result of the general reduction in economic activity associated with the Christmas and New Year holiday period in Russia and elsewhere. MMK also experiences lower demand for coated and long products in the winter period, as a result of a general reduction in economic activity and a slowing of customer demand.

Costs

Although, as a general matter, the prices of the MMK Group's raw materials are not subject to seasonal variations, the price of scrap metal does fluctuate seasonally, typically rising in spring and autumn and falling in summer and winter, largely as a result of the creation and depletion of winter stockpiles. Also, MMK's demand for and consumption of supplies for combustion, lubrication and energy, including natural gas, during the winter months is generally higher than during the rest of the year. In addition, the costs of transportation and storage of raw materials are also higher in the winter months than during the remainder of the year.

Finally, capital expenditure tends to be seasonal in Russia, with most capital expenditures reflected in the fourth quarter of the calendar year, which affects the MMK Group's net revenues (since general demand for steel can increase) and costs (driven by MMK's own capital investment programme).

Taxes

The taxation system in Russia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open longer. Recent events within Russia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. These circumstances may create tax risks in Russia that are substantially more significant than in other countries. MMK's management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on its results of operations and financial position, if the authorities were successful in enforcing their interpretations, could be significant.

The MMK Group is subject to a variety of taxes levied in Russia, including income tax, payroll tax, VAT, property tax and other taxes. The MMK Group has been registered as a "major taxpayer" in Russia since 30 June 2003, and, as a result, its compliance with Russian tax regulations is monitored by the department for major taxpayers of the Russian tax authorities.

Income tax

The income tax rate in Russia is currently 24 per cent. for all companies and the tax loss carry-forward period is ten years. The maximum amount of tax loss carry-forward that may be claimed for reduction of annual taxable profit is not limited. Expenses are tax-deductible, so long as they are economically proven, justified from a business standpoint and properly documented. Income tax on dividends distributed in Russia at present amounts to (i) 9 per cent. for income received by Russian legal entities and individuals resident in the Russian Federation from Russian legal entities, as well as for income received by individuals resident in the Russian Federation from foreign legal entities; (ii) 15 per cent. for income received by foreign legal entities from Russian legal entities and by Russian legal entities from foreign legal entities; and (iii) 30 per cent. for income received by individuals not resident in the Russian Federation from Russian legal entities.

Value-added tax

During each of the years in the three-year period ended 31 December 2006, the VAT rate in Russia applicable to MMK was 18 per cent.

Social costs

The MMK Group makes contributions to mandatory and voluntary social programmes in the city of Magnitogorsk. The MMK Group's social assets and programmes benefit the community at large and are not normally restricted to the MMK Group's employees. The MMK Group has transferred certain social operations and assets to local authorities; however, MMK's management expects that the MMK Group will continue to fund these social programmes for the foreseeable future. These costs are recorded in the year they are incurred and, in 2006, amounted to U.S.$76 million compared to U.S.$56 million in 2005 and U.S.$34 million in 2004. MMK expects the MMK Group's social costs to decline over the next few years.

Acquisitions and disposals

Acquisitions and disposals have not had a material effect on the MMK Group's results of operations or financial condition in the past three years.

However, MMK has pursued and intends to continue to pursue selected strategic opportunities to secure its raw materials supply or to invest in attractive markets. The inclusion of such acquisitions in the financial and operating results of the MMK Group in the future may impact the comparability of its results across financial reporting periods.

Net revenue by Principal Geographic Markets

The following table sets forth the MMK Group's percentage of its net revenue derived from its principal geographic markets for the financial years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December		
	2004	2005	2006
The Russian Federation and CIS	55%	61%	62%
China	6%	8%	1%
Italy	6%	3%	5%
Turkey	5%	6%	8%
India	3%	4%	2%
USA	3%	1%	3%
Iran	2%	4%	5%
Taiwan	4%	1%	—
Other (countries each representing less than 2% of total net revenue)	16%	12%	14%
Total	**100%**	**100%**	**100%**

Net revenues from sales where the customer was located in Russia and the CIS accounted for 55 per cent., 61 per cent. and 62 per cent. of net revenue in 2004, 2005 and 2006, respectively. These annual increases were a result of greater demand, increased prices and, pursuant to the MMK Group's strategy to increase domestic sales as results of these factors, increases in sales volumes in Russia and the CIS over the period from 2004 to 2006.

Net revenues from sales where the customer was located in China accounted for 6 per cent., 8 per cent. and 1 per cent. of net revenue in 2004, 2005 and 2006, respectively. The increase over the 2004-2005 period was a result of increased demand for steel products in China and China still being a net importer of steel products, which led to higher prices. However, China's demand for steel led to the rapid growth of steel production capacities in China and, as a result, its transformation into a net steel exporter during the 2005-2006 period, resulting in a significant decrease in sales to China in 2006.

Explanation of Certain Key Income Statement Items and Other Operational Data

Net revenue

The MMK Group recognises revenue on an accrual basis when earned and realisable, which generally occurs when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists and the sales price is fixed or determinable. Revenue is recognised net of applicable provisions for discounts, allowances, associated value-added taxes and export duties.

Cost of products sold (exclusive of depreciation and amortisation)

Cost of products sold primarily comprises raw material costs, non-management employee costs, raw material transport costs and other production related expenses.

Depreciation and amortisation

Depreciation and amortisation is calculated on a straight-line basis over the expected useful life of the asset and is expensed through the income statement.

Selling and distribution expenses

Selling and distribution expenses primarily comprise expenses relating to the transportation of finished products to customers, advertising and marketing.

Administrative and other expenses

Administrative and other expenses primarily comprise expenses relating to salaries and other benefits of management, including payments to OOO MMK Managing Company, insurance premiums, audit costs and consulting costs.

Social expenses

Social asset construction costs

Capital expenditure of a social nature which benefits the community as a whole in the city of Magnitogorsk and is not expected to bring direct economic benefits to the MMK Group.

Social and maintenance expenses

Expenditure related to the operation and maintenance of sports complexes, hospitals, sanatoriums, holiday and recreational facilities, medical centres, public housing, schools and restaurants in the city of Magnitogorsk.

All social costs are expensed during the period in which they are incurred.

Taxes other than income tax

Taxes other than income tax comprise property tax, unified social tax, subsoil tax, water tax and land tax, which the MMK Group pays in compliance with the laws of Russia on taxes and levies.

Other operating income, net

Other operating income, net comprises net gain on sale of other assets, change in allowance for doubtful accounts receivable, net gain on trading securities and other operating gain, net.

Income before tax and minority interest

Income before tax and minority interest is calculated by subtracting interest expense, net foreign exchange loss, if any, and equity in net losses of affiliates, if any, from income from operating activities and adding interest income, net foreign exchange gain, if any, and equity in net gains of affiliates, if any, to income from operating activities.

Results of Operations

For the years ended 31 December 2005 and 2006

The following table sets forth the MMK Group's annual consolidated statements of operations data for the years ended 31 December 2005 and 2006:

	Year ended 31 December	
	2005	**2006**
	(millions of U.S. dollars)	
Net revenue[1]	5,380	6,424
Cost of products sold (exclusive of depreciation and amortisation shown separately below)	(3,274)	(3,619)
Depreciation and amortisation	(173)	(188)
Selling and distribution expenses	(237)	(415)
Administrative and other expenses[2]	(262)	(285)
Social expenses[3]		
Social asset construction costs[4]	—	(18)
Social and maintenance expenses[5]	(56)	(58)
Taxes other than income tax[6]	(59)	(63)
Loss on disposal of property, plant and equipment	(15)	(52)
Other operating income, net[7]	19	39
Income from operating activities	**1,323**	**1,765**
Equity in net (losses)/gains of affiliates[8]	—	(8)
Interest income	97	69
Interest expense	(64)	(63)
Net foreign exchange gain/(loss)[9]	(39)	132
Income before income tax and minority interest[10]	**1,317**	**1,895**
Income tax expense[11]	(372)	(468)
Income before minority interest	**945**	**1,427**
Minority interest	2	(1)
Net income	**947**	**1,426**

Notes:

(1) This line item is referred to as "Gross revenue" in the 2005 Financial Statements.

(2) This line item is referred to as "Administrative expenses" in the 2005 Financial Statements.

(3) This line item is referred to as "Social costs" in the 2005 Financial Statements.

(4) This line item is referred to as "Social asset construction" in the 2005 Financial Statements.

(5) This line item is referred to as "Operation and maintenance expenses" in the 2005 Financial Statements.

(6) This line item is referred to as "Taxes other than income taxes" in the 2005 Financial Statements.

(7) This line item combines two separate line items in the 2005 Financial Statements: U.S.$11 million of "Change in allowance for doubtful accounts receivable and other provisions" and U.S.$8 million of "Other operating income".

(8) This line item is referred to as "Equity in income from affiliates" in the 2005 Financial Statements.

(9) This line item is referred to as "Net foreign exchange (loss)/gain" in the 2005 Financial Statements.

(10) This line item is referred to as "Income before tax and minority interest" in the 2005 Financial Statements.

(11) This line item is referred to as "Income taxes" in the 2005 Financial Statements.

Net revenue

Compared to the prior year, the MMK Group's consolidated net revenue increased by U.S.$1,044 million, or 19.4 per cent., from U.S.$5,380 million in 2005 to U.S.$6,424 million in 2006. This increase was primarily due to increased sales volumes (11.3 million metric tons in 2006 compared to 10.2 million metric tons in 2005), primarily driven by the sale of long products and hot-rolled products to Russia and the CIS, as well as increased prices. The average price per metric ton of MMK's steel products was U.S.$496 in 2006 compared with U.S.$485 in 2005 and the average price per metric ton for products sold in Russia and the CIS was U.S.$566 in 2006 compared with U.S.$567 in 2005.

Net revenue by product

The following table sets forth the MMK Group's revenues by product for the years ended 31 December 2005 and 2006:

	Year ended 31 December	
	2005	2006
	(millions of U.S. dollars)	
Rolled steel	3,165	3,752
Assorted rolled products	341	604
Galvanised steel	338	377
Hardware products	117	283
Tin plated steel	295	254
Band	274	251
Galvanised steel with polymeric coating	148	168
Formed section	112	127
Coking production	102	113
Slabs	140	107
Tubes	39	49
Wire, sling, bracing	71	30
Other	238	309
Total	**5,380**	**6,424**

Revenues from sales of rolled steel increased 18.5 per cent. from U.S.$3,165 million in 2005 to U.S.$3,752 million in 2006 due primarily to an increase in sales volumes, as well as to an increase in prices. Revenues from sales of assorted rolled products increased by 77.1 per cent. from U.S.$341 million in 2005 to U.S.$604 million in 2006, primarily due to a significant increase in the volume of sales of these products as a result of the completion in May 2006 of the reconstruction of the manufacturing facilities for assorted rolled products and a resultant increased production capacity of such facilities. Revenues from sales of slabs decreased 23.6 per cent. from U.S.$140 million in 2005 to U.S.$107 million in 2006, primarily as a result of decreased sales volumes of semi-finished products due to the processing of a greater percentage of such products into products with higher added value. Revenues from sales of tubes increased 25.6 per cent. from U.S.$39 million in 2005 to U.S.$49 million in 2006 primarily as a result of an increase in tube prices, as well as an increase in sales volumes of galvanised tubes.

Cost of products sold (exclusive of depreciation and amortisation)

The table below sets forth the MMK Group's cost of products sold (exclusive of depreciation and amortisation) for the years ended 31 December 2005 and 2006:

	Year ended 31 December	
	2005	2006
	(millions of U.S. dollars)	
Direct materials (including raw materials and energy)	2,860	3,131
Payroll	315	394
Overhead	75	78
Other expenses	31	33
Changes in work-in-progress and finished goods	(7)	(17)
Total	**3,274**	**3,619**

The MMK Group's cost of products sold (exclusive of depreciation and amortisation) increased by U.S.$345 million, or 10.5 per cent., from U.S.$3,274 million in 2005 to U.S.$3,619 million in 2006. This increase was primarily due to the increased use of raw materials and increased average prices for these materials and an increase in average wages resulting in an increase in payroll costs. However, cost of products sold (exclusive of depreciation and amortisation) as a percentage of net revenue decreased from 60.9 per cent. in 2005 to 56.3 per cent. in 2006 because the increase in prices of products sold was generally greater than the increase in prices of raw materials and salaries.

Depreciation and amortisation

The MMK Group's depreciation and amortisation increased by U.S.$15 million, or 8.7 per cent., from U.S.$173 million in 2005 to U.S.$188 million in 2006. This increase was primarily due to the commissioning of two electric arc steel-making furnaces as part of MMK's ongoing Modernisation and Investment Programme.

Selling and distribution expenses

The MMK Group's selling and distribution expenses increased by U.S.$178 million, or 75.1 per cent., from U.S.$237 million in 2005 to U.S.$415 million in 2006. This increase was primarily due to the fact that the MMK Group increased the proportion of its product sales through its own trading companies (as opposed to using third parties) and, therefore, expenses related to shipment of such sales to final customers were included in consolidated expenses.

Administrative and other expenses

The MMK Group's administrative and other expenses increased by U.S.$23 million, or 8.8 per cent., from U.S.$262 million in 2005 to U.S.$285 million in 2006. This increase was primarily due to an increase in the salaries of MMK Group's management.

Social expenses

The MMK Group's social expenses grew by U.S.$20 million, or 35.7 per cent., from U.S.$56 million in 2005 to U.S.$76 million in 2006. This increase was primarily due to the construction of an ice hockey arena for the city of Magnitogorsk.

Taxes other than income tax

The MMK Group's taxes other than income tax increased by U.S.$4 million, or 6.8 per cent., from U.S.$59 million in 2005 to U.S.$63 million in 2006, primarily due to an increase in property taxes as a result of an increase in capital assets.

Loss on disposal of property, plant and equipment

The MMK Group's loss on disposal of property, plant and equipment increased by U.S.$37 million from U.S.$15 million in 2005 to U.S.$52 million in 2006. This increase was primarily due to the disposal of old equipment which was replaced with new equipment.

Other operating income, net

The MMK Group's other operating income, net increased by U.S.$20 million, or 105.3 per cent., from U.S.$19 million in 2005 to U.S.$39 million in 2006. This increase was primarily due to securities trading gains in 2006 and gains from the sale of other assets.

Income from operating activities

As a result of the foregoing, the MMK Group's income from operating activities increased by U.S.$442 million, or 33.4 per cent., from U.S.$1,323 million in 2005 to U.S.$1,765 million in 2006. This increase reflects a 19.4 per cent. increase in revenues compared to a 10.5 per cent. increase in the cost of products sold (exclusive of depreciation and amortisation).

Income before income tax and minority interest

The MMK Group's income before income tax and minority interest increased by U.S.$578 million, or 43.9 per cent., from U.S.$1,317 million in 2005 to U.S.$1,895 million in 2006. This increase was primarily due to the U.S.$442 million increase in income from operating activities and a U.S.$171 million reversal in the net foreign exchange loss of the MMK Group from a loss of U.S.$39 million in 2005 to a gain of U.S.$132 million in 2006, which were only partially offset by a net decrease in interest income of U.S.$28 million from U.S.$97 million in 2005 to U.S.$69 million in 2006.

Interest income decreased by U.S.$28 million from U.S.$97 million in 2005 to U.S.$69 million in 2006 primarily due to a decrease in the amount of deposited funds in 2006.

Interest expense decreased slightly by U.S.$1 million from U.S.$64 million in 2005 to U.S.$63 million in 2006.

Net foreign exchange gains increased by U.S.$171 million from a loss of U.S.$39 million in 2005 to a gain of U.S.$132 million in 2006. This increase was due primarily to a decrease in the U.S. dollar-Russian rouble exchange rate. Net foreign exchange gains were recognised as a result of the translation from Russian roubles into the MMK Group's functional currency, the U.S. dollar.

Equity in net losses of affiliates increased from nil in 2005 to U.S.$8 million in 2006 due primarily to losses from the MMK Group's investment in CJSC Kazankovskaya Coal Company.

Income tax expense

Due to the increase in income from operating activities, income tax expense increased from U.S.$372 million charged in 2005 to U.S.$468 million charged in 2006.

Net income

As a result of the foregoing, the MMK Group's net income for the year increased by U.S.$479 million, or 50.6 per cent., from U.S.$947 million in 2005 to U.S.$1,426 million in 2006.

For the years ended 31 December 2004 and 2005

The following table sets forth the MMK Group's annual consolidated statements of operations data for the years ended 31 December 2004 and 2005:

	Year ended 31 December	
	2004	2005
	(millions of U.S. dollars)	
Net revenue(1)	4,829	5,380
Cost of products sold (exclusive of depreciation and amortisation shown separately below)	(2,712)	(3,274)
Depreciation and amortisation	(169)	(173)
Selling and distribution expenses	(128)	(237)
Administrative and other expenses(2)	(213)	(262)
Social expenses(3)		
Social asset construction costs(4)	(1)	—
Social and maintenance expenses(5)	(33)	(56)
Taxes other than income tax(6)	(48)	(59)
Loss on disposal of property, plant and equipment	(28)	(15)
Other operating income, net(7)	41	19
Income from operating activities	**1,538**	**1,323**
Equity in net (losses)/gains of affiliates(8)	1	—
Interest income	69	97
Interest expense	(65)	(64)
Net foreign exchange gain/(loss)(9)	78	(39)
Income before income tax and minority interest(10)	**1,621**	**1,317**
Income tax expense(11)	(389)	(372)
Income before minority interest	**1,232**	**945**
Minority interest	—	2
Net income	**1,232**	**947**

Notes:

(1) This line item is referred to as ''Gross revenue'' in the 2004/2005 Financial Statements.

(2) This line item is referred to as ''Administrative expenses'' in the 2004/2005 Financial Statements.

(3) This line item is referred to as ''Social costs'' in the 2004/2005 Financial Statements.

(4) This line item is referred to as ''Social asset construction'' in the 2004/2005 Financial Statements.

(5) This line item is referred to as ''Operation and maintenance expenses'' in the 2004/2005 Financial Statements.

(6) This line item is referred to as ''Taxes other than income taxes'' in the 2004/2005 Financial Statements.

(7) This line item combines two separate line items in the 2004/2005 Financial Statements: U.S.$11 million of ''Change in allowance for doubtful accounts receivable and other provisions'' and U.S.$8 million of ''Other operating income'' in the 2005 Financial Statements and U.S.$10 million of ''Change in allowance for doubtful accounts receivable and other provisions'' and U.S.$31 million of ''Other operating income'' in the 2004 Financial Statements.

(8) This line item is referred to as ''Equity in income from affiliates'' in the 2004/2005 Financial Statements.

(9) This line item is referred to as ''Net foreign exchange (loss)/gain'' in the 2004/2005 Financial Statements.

(10) This line item is referred to as ''Income before tax and minority interest'' in the 2004/2005 Financial Statements.

(11) This line item is referred to as ''Income taxes'' in the 2004/2005 Financial Statements.

Net revenue

Compared to the prior year, the MMK Group's consolidated net revenue increased by U.S.$551 million, or 11.4 per cent., from U.S.$4,829 million in 2004 to U.S.$5,380 million in 2005. This increase was primarily due to a small increase in sales volumes (10.2 million metric tons sold in 2005 compared with 10.1 million metric tons sold in 2004), a more favourable product mix and increased average sales prices (average total price of U.S.$432 per metric ton in 2004 compared with U.S.$485 per metric ton in 2005), particularly in Russia and the CIS (average price for products sold in Russia and the CIS of U.S.$478 per metric ton in 2004 compared with U.S.$567 per metric ton in 2005).

In 2005, the MMK Group experienced a U.S.$312 million increase in rolled steel revenue as a result of increased sales volumes as well as improved pricing, a U.S.$98 million increase in galvanised steel with polymeric coating revenue as a result of higher sales volumes, a U.S.$39 million increase in formed section revenue primarily as a result of increased sales volumes and a U.S.$36 million increase in coking production revenue primarily as a result of higher prices.

Net revenue by product

The following table sets forth the MMK Group's revenues by product for the years ended 31 December 2004 and 2005:

	Year ended 31 December	
	2004	**2005**
	(millions of U.S. dollars)	
Rolled steel	2,853	3,165
Assorted rolled products	365	341
Galvanised steel	322	338
Hardware products	121	117
Tin plated steel	217	295
Band	251	274
Galvanised steel with polymeric coating	50	148
Formed section	73	112
Coking production	66	102
Slabs	258	140
Tubes	45	39
Wire, sling, bracing	80	71
Other	128	238
Total	**4,829**	**5,380**

Sales of rolled steel products accounted for the majority of the MMK Group's revenues in 2004 and 2005, with revenues from sales of rolled steel products increasing 10.9 per cent. from U.S.$2,853 million in 2004 to U.S.$3,165 million in 2005 primarily due to the enhancement of the MMK Group's production capacity for rolled steel products. However, revenues from sales of galvanised steel with polymeric coating experienced the greatest percentage increase, with revenues from such sales increasing by 196 per cent. from U.S.$50 million in 2004 to U.S.$148 million in 2005 primarily as a result of a significant increase in output as the productivity of the polymeric coating equipment reached its estimated capacity. In addition, revenues from coking production increased by 54.5 per cent. from U.S.$66 million in 2004 to U.S.$102 million in 2005 as a result of an increase in coke prices and revenues from formed section sales increased by 53.4 per cent. from U.S.$73 million in 2004 to U.S.$112 million in 2005 as a result of both an increase in volume and prices. Revenues from sales of slabs decreased by 45.7 per cent. from U.S.$258 million in 2004 to U.S.$140 million in 2005, reflecting lower sales volumes in slabs since a higher percentage of slabs were processed into higher value products in 2005 than during 2004. Revenues from sales of "Other" products increased by 85.9 per cent. from U.S.$128 million in 2004 to U.S.$238 million in 2005 primarily due to increased sales of thermal power and scrap.

Cost of products sold (exclusive of depreciation and amortisation)

The table below sets forth the MMK Group's cost of products sold (exclusive of depreciation and amortisation) for the years ended 31 December 2004 and 2005:

	Year ended 31 December	
	2004	2005
	(millions of U.S. dollars)	
Direct materials (including raw materials and energy)	2,336	2,860
Payroll	291	315
Overhead	104	75
Other expenses	23	31
Changes in work-in-progress and finished goods	(42)	(7)
Total	**2,712**	**3,274**

The MMK Group's cost of products sold (exclusive of depreciation and amortisation) increased by U.S.$562 million, or 20.7 per cent., from U.S.$2,712 million or 56.2 per cent. of net revenue in 2004 to U.S.$3,274 million or 60.9 per cent. of net revenue in 2005. This increase was primarily due to higher average prices for raw materials caused by the interruption in supply from SSGPO described in "Business—Raw Materials and Energy", as well as an increase in payroll due to higher average wages during the period.

Depreciation and amortisation

The MMK Group's depreciation and amortisation increased by U.S.$4 million, or 2.4 per cent., from U.S.$169 million in 2004 to U.S.$173 million in 2005. This increase was primarily due to the commissioning of new capital assets (two section mills) and the reconstruction of old facilities (a blast furnace), as part of MMK's ongoing Modernisation and Investment Programme, which was partially offset by the disposal of obsolete facilities with high depreciation rates.

Selling and distribution expenses

The MMK Group's selling and distribution expenses increased by U.S.$109 million, or 85.2 per cent., from U.S.$128 million in 2004 to U.S.$237 million in 2005. This increase was primarily due to the fact that the MMK Group increased the proportion of its product sales through its own trading companies (as opposed to third parties) and, therefore, expenses related to shipment of such sales to final customers were included in consolidated expenses.

Administrative and other expenses

The MMK Group's administrative and other expenses increased by U.S.$49 million, or 23.0 per cent., from U.S.$213 million in 2004 to U.S.$262 million in 2005. This increase was primarily due to an increase in the salaries of MMK Group's management and other expenses.

Social expenses

The MMK Group's social expenses increased by U.S.$22 million, or 64.7 per cent., from U.S.$34 million in 2004 to U.S.$56 million in 2005. This increase was primarily due to increased expenses related to the financing of social assets and the implementation of social programmes for the city of Magnitogorsk.

Taxes other than income tax

The MMK Group's taxes other than income tax increased by U.S.$11 million, or 22.9 per cent., from U.S.$48 million in 2004 to U.S.$59 million in 2005, primarily due to an increase in property taxes as a result of an increase in capital assets.

Loss on disposal of property, plant and equipment

The MMK Group's loss on disposal of property, plant and equipment decreased by U.S.$13 million from U.S.$28 million in 2004 to U.S.$15 million in 2005. This decrease was primarily due to disposal in 2005 of obsolete facilities.

Other operating income, net

The MMK Group's other operating income, net decreased by U.S.$22 million, or 53.7 per cent., from U.S.$41 million in 2004 to U.S.$19 million in 2005. This decrease was primarily due to a release of a tax accrual, securities trading gains in 2004 by a subsidiary which were not achieved in 2005 and which increased other operating income, net in 2004 and a disposal of other assets at a loss in 2005.

Income from operating activities

As a result of the foregoing, the MMK Group's income from operating activities decreased by U.S.$215 million, or 14.0 per cent., from U.S.$1,538 million in 2004 to U.S.$1,323 million in 2005. In particular, during this period, the MMK Group's cost of products sold (exclusive of depreciation and amortisation) increased at a higher rate than net revenue, principally driven by increased raw materials costs, as discussed above.

Income before income tax and minority interest

The MMK Group's income before income tax and minority interest decreased by U.S.$304 million, or 18.8 per cent., from U.S.$1,621 million in 2004 to U.S.$1,317 million in 2005. This decrease was primarily due to the U.S.$215 million decrease in income from operating activities and a U.S.$117 million decline in the net foreign exchange gain of the MMK Group from a gain of U.S.$78 million in 2004 to a loss of U.S.$39 million in 2005, which were only partially offset by a net gain in interest income of U.S.$28 million from U.S.$69 million in 2004 to U.S.$97 million in 2005.

Interest income increased by U.S.$28 million primarily due to an increase in the amount of cash placed in deposit and the purchase of deposit certificates.

Interest expense decreased by U.S.$1 million from U.S.$65 million in 2004 to U.S.$64 million in 2005.

Net foreign exchange gains decreased by U.S.$117 million from a gain of U.S.$78 million in 2004 to a loss of U.S.$39 million in 2005. This decrease was due primarily to a strengthening of the U.S. dollar against the Russian rouble as of 31 December 2005 compared with the U.S.$-Russian rouble exchange rate as of 31 December 2004 during a period when the MMK Group had large Russian rouble deposits. Net foreign exchange losses were a result of translation from the Russian rouble into the MMK Group's functional currency, the U.S. dollar.

Equity in net gains of affiliates decreased by U.S.$1 million from U.S.$1 million in 2004 to nil in 2005 due primarily to losses from the MMK Group's investment in CJSC Kazankovskaya Coal Company, partially offset by increased income attributable to MMK Trans.

Income tax expense

Due to the decrease in income from operating activities, income tax expense decreased from U.S.$389 million accrued in 2004 to U.S.$372 million accrued in 2005.

Net income

As a result of the foregoing, the MMK Group's net income for the year decreased by U.S.$285 million, or 23.1 per cent., from U.S.$1,232 million in 2004 to U.S.$947 million in 2005.

Liquidity and Capital Resources

Sources and uses

The MMK Group funds its operations primarily through net cash from operations and proceeds from debt financings. These funds are used primarily to finance the MMK Group's working capital and capital expenditure requirements, acquisitions and dividend payments to shareholders.

The MMK Group's business is heavily dependent on plant and machinery for the production of steel and steel products. Investments to maintain, expand and increase the efficiency of production facilities are, accordingly, an important priority and have a significant effect on the MMK Group's cash flows and future results of operations. See "Business—Modernisation and Investment Programme" and "—Modernisation and Investment Programme". The MMK Group's capital expenditures were approximately U.S.$725 million in 2006 compared to U.S.$580 million in 2005 and U.S.$407 million in 2004. MMK has budgeted approximately U.S.$782 million for planned capital expenditures in 2007 and over U.S.$5.2 billion between 2007 and 2013, U.S.$1.8 billion of which relates to projects which have already been commenced or in respect of which binding agreements have been entered into.

The table below sets forth dividends paid in each of the three years ended 31 December 2004, 2005 and 2006.

	Year ended 31 December		
	2004	2005	2006
	(millions of U.S. dollars)		
Aggregate dividend paid	14	947	1,077

The MMK Group's dividend policy and the amount of any dividend payment for any particular period is subject to the recommendation of the Board of Directors and approval by MMK's shareholders and restrictions under Russian law. See "Dividend Policy and Market Information" and "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law—Dividends and Dividend Rights".

Cash flows

The following table sets forth the MMK Group's consolidated cash flow for the years ended 31 December 2004, 2005 and 2006. This table is based on, and should be read in conjunction with, the Financial Statements included elsewhere in this Prospectus:

	Year ended 31 December		
	2004	2005	2006
	(millions of U.S. dollars)		
Net cash provided by operating activities	1,010	1,255	1,077
Net cash used in investing activities	(713)	(412)	(1,080)
Net cash (used in)/provided by financing activities	743	(1,587)	(779)
Effect of exchange rate changes on cash and cash equivalents	20	(2)	(18)
Net (decrease)/increase in cash and cash equivalents	1,060	(746)	(800)
Cash and cash equivalents at beginning of the year	824	1,884	1,138
Cash and cash equivalents at end of the year	1,884	1,138	338

Net cash provided by operating activities

Net cash provided by operating activities primarily comprises net income adjusted for certain non-cash items (such as depreciation and amortisation, deferred tax expense and other items) and the effect of changes in working capital. Net cash provided by operating activities decreased by U.S.$178 million, or 14.2 per cent., from U.S.$1,255 million in 2005 to U.S.$1,077 million in 2006, despite an increase in net income from U.S.$947 million in 2005 to U.S.$1,426 million in 2006. This was primarily due to a change in trade and other receivables from a decrease of U.S.$181 million in 2005 to an increase of U.S.$262 million in 2006, as well as an increase of U.S.$308 million in the amount of trading securities held, primarily promissory notes with maturities of more than 90 days. The change in trade and other receivables was primarily due to an increase in the period for which credit is extended to customers and increased volumes of sales. Net cash provided by operating activities increased during 2005 by U.S.$245 million, or 24.3 per cent., from U.S.$1,010 million in 2004 to U.S.$1,255 million in 2005, despite a decline in net income from U.S.$1,232 million in 2004 to U.S.$947 million in 2005. This was primarily due to a U.S.$570 million change in trade and other receivables from an increase of U.S.$389 million in 2004 to a decrease of U.S.$181 million in 2005. The change was primarily due to the weakening of the Asian markets and, as a result, a decrease in sales to these markets.

Net cash used in investing activities

Net cash used in investing activities increased by U.S.$668 million, or 162 per cent., from U.S.$412 million in 2005 to U.S.$1,080 million in 2006. This increase was primarily due to a U.S.$122 million increase in the purchase of investment securities and a U.S.$145 million increase in purchases of property, plant and equipment and intangible assets. Net cash used in investing activities decreased during 2005 by U.S.$301 million, or 42.2 per cent., from U.S.$713 million in 2004 to U.S.$412 million in 2005. This decrease was primarily due to the return in 2005 of U.S.$200 million of U.S.$312 million which had been invested in one-year bank deposits in 2004. In addition, there was increased net cash flow from other investments of U.S.$42 million in 2005 compared with 2004.

Net cash (used in)/provided by financing activities

Net cash (used in)/provided by financing activities decreased by U.S.$808 million from U.S.$1,587 million in 2005 to U.S.$779 million in 2006. This was primarily due to a U.S.$513 million decrease in repayment of loan principal and a U.S.$405 million increase in loan proceeds. Net cash (used in)/provided by financing activities decreased during 2005 by U.S.$2,330 million from a U.S.$743 million cash inflow in 2004 to a U.S.$1,587 million cash outflow in 2005. This was primarily due to a U.S.$1,160 million increase in repayments of borrowings from U.S.$740 million in 2004 to U.S.$1,900 million in 2005 and a U.S.$933 million increase in dividend payments from U.S.$14 million in 2004 to U.S.$947 million in 2005.

Effect of exchange rate changes on cash and cash equivalents

The effect of exchange rate changes on cash and cash equivalents during 2006 was a U.S.$16 million decrease, from a U.S.$2 million loss in 2005 to a U.S.$18 million loss in 2006 due primarily to a weakening of the U.S. dollar against the Russian rouble from the date of receipt to the date of use of cash and cash equivalents. The effect of exchange rate changes on cash and cash equivalents during 2005 was a U.S.$22 million decrease, from a U.S.$20 million gain in 2004 to a U.S.$2 million loss in 2005 due primarily to the strengthening of the U.S. dollar against the Russian rouble during the period and the MMK Group having a large portion of cash and bank deposits being held in Russian roubles.

Cash and cash equivalents

As a result of the foregoing, as well as the payment of dividends and capital expenditures, cash and cash equivalents at the end of the year decreased by U.S.$800 million from U.S.$1,138 million at the end of 2005 to U.S.$338 million at the end of 2006, consistent with the MMK Group's strategy to manage its level of cash and cash equivalents. Cash and cash equivalents decreased during 2005 by U.S.$746 million from U.S.$1,884 million at the end of 2004 to U.S.$1,138 million at the end of 2005.

Liquidity

Historically, the MMK Group has relied on cash from its operating activities and borrowings as its main sources of liquidity.

The MMK Group had cash and cash equivalents of U.S.$338 million at 31 December 2006. Of this amount, approximately U.S.$60 million was held in U.S. dollars, U.S.$271 million was held in Russian roubles, U.S.$6 million was held in euro and U.S.$1 million was held in Swiss francs. A majority of the MMK Group's cash and cash equivalents are held in major Russian banks.

As of 31 December 2006, the MMK Group had total debt of U.S.$1,006 million. See "—Key Factors Affecting the MMK Group's Results of Operations—Exchange rates" above and "—Financial liabilities" below.

MMK's management believes that funds from operations, cash on hand and external borrowings will be sufficient to satisfy the MMK Group's working capital needs and service the MMK Group's debt in the foreseeable future. MMK's management also believes that the MMK Group's liquidity and capital resources give the MMK Group adequate flexibility to manage its planned capital spending programmes and to address short-term changes in business conditions. In addition, the MMK Group's ability to rely on external sources of financing could be affected by factors such as the liquidity of the Russian and other financial markets, prevailing interest rates, the MMK Group's credit rating and the Russian government's policies regarding rouble and foreign currency borrowings. See "Risk Factors". The forward-looking statements in this paragraph are based on currently available information. To the extent that this information proves to be inaccurate, future liquidity may be adversely affected.

Other than as described above and elsewhere in this Prospectus, no significant change has occurred to the MMK Group's liquidity since 31 December 2006.

Financial investments

	31 December		
	2004	2005	2006
	(millions of U.S. dollars)		
Short-term investments[(1)]			
Trading promissory notes	—	—	212
Trading equity securities[(2)(3)]	2	3	30
Trading debt securities[(2)(4)]	16	9	78
Share in mutual investment fund	—	—	5
Promissory notes held to maturity	35	1	—
	53	**13**	**325**
Long-term investments[(5)]			
Equity securities classified as available for sale[(6)(7)]	1	1	146
Other long-term assets[(8)]			
Restricted cash[(9)]	4	2	5
Loans to employees	1	1	1
Loans provided	—	—	6
	5	**3**	**12**
Long-term bank deposits[(10)]			
Bank deposits, RUB	103	99	109
Short-term bank deposits			
Bank deposits, RUB	209	—	228

Notes:

(1) This is referred to as ''Current investments'' in the notes to the 2004/2005 Financial Statements.

(2) Net gains on trading securities during the year ended 31 December 2006 were U.S.$2 million (compared to U.S.$8 million in 2005 and U.S.$8 million in 2004) and are included in other operating income, net (''Other operating income'' in the 2004/2005 Financial Statements) in the consolidated statements of operations. Trading debt securities and trading promissory notes are liquid publicly traded bonds and notes of Russian companies and banks. They are reflected at period-end market value based on last trade prices obtained from investment brokers. Trading equity securities are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on last trade prices obtained from investment brokers.

(3) This is referred to as ''Equity securities held for trading'' in the notes to the 2004/2005 Financial Statements.

(4) This is referred to as ''Debt securities held for trading'' in the notes to the 2004/2005 Financial Statements.

(5) This is referred to as ''Non-current investments'' in the notes to the 2004/2005 Financial Statements.

(6) As of 31 December 2006, long-term equity securities classified as available for sale mainly represent investments in equity securities of a foreign entity, where the MMK Group has less than a 20 per cent. equity interest and no significant influence. As of 31 December 2006, unrealised holding gains on these securities were U.S.$18 million, net of the related income tax effect of U.S.$5 million, and reported as a separate component of other comprehensive income.

(7) This is referred to as ''Equity securities available-for-sale'' in the notes to the 2004/2005 Financial Statements.

(8) This is referred to as ''Other non-current assets'' in the notes to the 2004/2005 Financial Statements. In the 2004/2005 Financial Statements, ''Other non-current assets'' included as of 31 December 2005 a ''Loan provided to affiliate'' of U.S.$14 million, which was reclassified as ''Investments in affiliates'' in the 2006 Financial Statements.

(9) Restricted cash represents legally restricted collateral deposited with various banks as margin for irrevocable letters of credit.

(10) As of 31 December 2006, long-term bank deposits represented subordinated deposits that were placed in a Russian bank in 2004, and are not available to be withdrawn before 15 December 2009.

As of 31 December 2006 the weighted average interest rate on bank deposits with original maturities less than 90 days (included in cash and cash equivalents) was 6.43 per cent. As of 31 December 2006 the weighted average interest rate on short-term bank deposits with original maturities exceeding 90 days was 10.08 per cent. As of 31 December 2006 the weighted average interest rate on long-term bank deposits was 6.50 per cent.

Short-term and long-term debt

Management's policy is to maintain a high degree of flexibility in operating and investment activities by maintaining adequate liquidity levels and ensuring access to readily available sources of financing. The MMK Group obtains financing primarily in U.S. dollars, Russian roubles and euro. Whenever feasible, management bases its financing decisions, including the election of term and type of the facility, on the intended use of proceeds for the proposed financing.

The MMK Group's short-term and long-term debt currently consists of secured bank loans, unsecured bank loans, outstanding bonds, overdraft facilities and capital leases. This short-term and long-term debt is denominated in U.S. dollars, euro and Russian roubles. As of 31 December 2006, U.S. dollar-denominated short-term and long-term debt represented 89 per cent. of total short-term and long-term debt (compared to 89 per cent. as of 31 December 2005 and 34 per cent. as of 31 December 2004). Total current debt was U.S.$400 million as of 31 December 2006 (compared to U.S.$171 million as of 31 December 2005 and U.S.$847 million as of 31 December 2004). Total non-current debt was U.S.$606 million as of 31 December 2006 (compared to U.S.$468 million as of 31 December 2005 and U.S.$388 million as of 31 December 2004).

The MMK Group's outstanding bonds consist of the U.S.$300 million in aggregate principal amount of 8 per cent. notes due in October 2008 (the "2008 Notes") issued by MMK Finance S.A., a wholly-owned subsidiary of the MMK Group, in October 2003. The 2008 Notes are fully, unconditionally and irrevocably guaranteed by MMK. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. The MMK Group's bank loans are also subject to restrictive covenants, including, but not limited to, the maintenance of certain debt ratios.

As of 31 December 2006, the unused portion under all credit facilities (including long-term portion) was U.S.$246 million (compared to U.S.$224 million as of 31 December 2005 and U.S.$92 million as of 31 December 2004). See "—Quantitative and Qualitative Disclosure on Market Risk".

The following table shows the MMK Group's short-term and long-term debt as of 31 December of each of the last three years:

	31 December		
	2004	**2005**	**2006**
	(millions of U.S. dollars)		
Bank borrowings	713	298	647
Bonds	476	301	303
Financial leases	46	40	54
Bank overdrafts	—	—	2
Total borrowings	**1,235**	**639**	**1,006**

The decrease in bank borrowings from U.S.$713 million in 2004 to U.S.$298 million in 2005 was primarily due to the (i) redemption of €100 million in aggregate principal amount of the MMK Group's euro-denominated bonds in February 2005, (ii) redemption of RUB 900 million in aggregate principal amount of the MMK Group's Russian rouble-denominated corporate bonds and (iii) early repayment of high interest short-term borrowings with a Russian bank. The increase in bank borrowings from U.S.$298 million in 2005 to U.S.$647 million in 2006 was primarily due to the MMK Group's entering into (i) U.S. dollar-denominated loans with foreign banks in 2005 with a total outstanding balance of U.S.$70 million as of 31 December 2006, (ii) U.S. dollar-denominated loans with major foreign banks in 2006 with a total outstanding balance as of 31 December 2006 of U.S.$144 million and (iii) U.S. dollar-denominated short-term loans with a major non-Russian bank for pre-export financing.

Other liabilities

As of 31 December 2006, the MMK Group had unfunded obligations of U.S.$30 million (compared to U.S.$26 million as of 31 December 2005 and U.S.$23 million as of 31 December 2004) with respect to its defined benefit plan for employees who retired prior to 1 April 2001.

Leased assets with a carrying amount of U.S.$72 million as of 31 December 2006 compared with U.S.$57 million as of 31 December 2005 and U.S.$54 million as of 31 December 2004 were included in property, plant and equipment as follows:

	Gross carrying amount(1)	Accumulated depreciation	Net carrying value(2)
	(millions of U.S. dollars)		
Machinery and equipment	76	(12)	64
Construction-in-progress(3)	8	—	8
Balance as of 31 December 2006	84	(12)	72
Balance as of 31 December 2005	66	(9)	57
Balance as of 31 December 2004	60	(6)	54

Notes:

(1) This is referred to as "Cost" in the notes to the 2004/2005 Financial Statements.

(2) This is referred to as "Carrying value" in the notes to the 2004/2005 Financial Statements.

(3) This is referred to as "Assets under construction" in the notes to the 2004/2005 Financial Statements.

Contractual obligations

In addition to the financial liabilities discussed above, the MMK Group has various purchase commitments for materials, supplies and items of capital investment incidental to the ordinary course of business. The MMK Group had outstanding, as of 31 December 2006, several long-term obligations that will become due in 2007 and beyond. These various purchase commitments and long-term obligations will have an effect on the MMK Group's future liquidity and capital resources.

The MMK Group has entered into five- and ten-year contracts with certain of its suppliers of iron ore materials and coal. These contracts require MMK to purchase certain volumes of raw materials every year for the duration of the contractual period with the prices for such raw materials being adjusted every year. See "Business—Raw Materials and Energy" and "Risk Factors—Risk Factors Relating to the MMK Group—MMK has limited ability to reduce the volumes of iron ore that it is required to purchase under its long-term supply contract with ENRC, in the event that MMK's production levels decline".

The following table summarises the MMK Group's contractual obligations, commercial commitments and principal payments as of 31 December 2006 under its debt instruments, leases and other agreements. The information presented in the table below reflects the contractual maturities of the MMK Group's obligations, which may differ significantly from the actual maturity of these obligations.

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
	(millions of U.S. dollars)				
Long-term debt, including current portion(1)	700	123	556	21	—
Capital lease obligations, including current portion	65	31	32	2	—
Operating leases	8	2	1	1	4
Total(2)	**773**	**156**	**589**	**24**	**4**

Notes:

(1) Exclusive of interest to be paid on the long-term debt. Long-term debt is subject to certain debt covenants. The violation of any such covenants could result in the acceleration of these payments.

(2) This table does not reflect purchase orders entered into in the normal course of business, long-term commitments for the purchase of raw materials, supplies or energy or purchase commitments for capital investment items. See "Business—Raw Materials and Energy" and "Business—Modernisation and investment programme".

As of 31 December 2006, the MMK Group had executed binding purchase agreements in the amount of approximately U.S.$2.8 billion to subsequently acquire property, plant and equipment, and coking coal, zinc and aluminium. In the beginning of 2007, the MMK Group entered into long-term purchase agreements in the amount of approximately U.S.$8.6 billion to subsequently acquire coking coal, zinc, aluminium and iron ore and, in April 2007, the MMK Group entered into a five year supply contract with OOO TD Mechel for the supply of coal concentrate.

Off-Balance Sheet Arrangements

The MMK Group has entered into guarantees in connection with the provision of raw materials and other production supplies in the ordinary course of its business.

Such financial guarantees were provided in respect of loans obtained by certain related and third-party suppliers of the MMK Group. Amounts related to the MMK Group's financial guarantees are as follows:

	31 December		
	2004	**2005**	**2006**
	(millions of U.S. dollars)		
Non-current(1)			
Related parties(2)	31	156	200
Third parties(3)	—	20	37
Current(4)			
Related parties(2)	49	5	1
Third parties(3)	—	2	7
Total	**80**	**183**	**245**

Notes:

(1) This is referred to as "Due to expire in more than 12 months" in the notes to the 2004/2005 Financial Statements.

(2) This is referred to as "Related party suppliers" in the notes to the 2004/2005 Financial Statements.

(3) This is referred to as "Third party suppliers" in the notes to the 2004/2005 Financial Statements.

(4) This is referred to as "Due to expire within 12 months" in the notes to the 2004/2005 Financial Statements.

The MMK Group's estimated maximum exposure to credit losses in the event of non-performance by the other parties to these financial guarantees is represented by the contractual amounts disclosed above. As of 31 December 2006, the MMK Group did not have any other contractual commitments to extend financial guarantees, credit or other assistance. On 30 March 2007, MMK approved an extension in the maturity date of a guarantee, which remains subject to final agreement, in an amount of U.S.$98.5 million for a loan entered into by CJSC Profit (a related party of the MMK Group) in 2005, which is expected to have its maturity date extended by one year.

Pledges

As of 31 December 2006, the MMK Group had pledged property, plant and equipment of U.S.$3 million and U.S.$11 million of inventory (2005: U.S.$27 million of property, plant and equipment and U.S.$8 million of inventory; 2004: U.S.$241 million of property, plant and equipment and U.S.$6 million of inventory).

The MMK Group's property was subject to the following pledges as of 31 December 2004, 2005 and 2006:

	31 December		
	2004	**2005**	**2006**
	(millions of U.S. dollars)		
Short-term			
Pledges provided for debt of the MMK Group	202	30	10
Long-term			
Pledges provided for debt of the MMK Group	45	5	4
Total	**247**	**35**	**14**

Recent Guarantees

On 30 March 2007, MMK approved a guarantee, which remains subject to final agreement, in an amount of U.S.$450 million for a loan expected to be entered into by MMK Trading AG.

Quantitative and Qualitative Disclosure on Market Risk

Exposure to credit, commodity price, interest rate and currency risk arises in the normal course of the MMK Group's business. The MMK Group does not use derivative instruments to hedge its risks associated with fluctuations in commodity prices and interest rate movements. Since 2006, the MMK Group has used derivative instruments to manage its exposure to foreign currency exchange rate fluctuations, in particular the strengthening of the Russian rouble against the U.S. dollar.

The following table sets forth the MMK Group's total debt liabilities by currency, interest rate and type of debt as of 31 December 2004, 2005 and 2006:

	31 December 2004	Effective interest rate	31 December 2005	Effective interest rate	31 December 2006	Annual interest rate (actual as of 31 December 2006)
	(millions of U.S. dollars, except for interest rates)					
Current liabilities						
Secured loans						
RUB, fixed	150	7%	10	11%	6	10%
RUB, variable	4	11%	—	—	—	—
U.S.$, variable	—	—	82	5%	226	6%
Unsecured loans						
RUB, fixed	430	7%	1	11%	1	12%
RUB, variable	—	—	9	8%	17	8%
U.S.$, variable	40	4%	—	—	—	—
Current portion of unsecured bond issues						
RUB, fixed	28	9%	—	—	—	—
EUR, fixed	148	11%	—	—	—	—
U.S.$, fixed	4	9%	4	9%	4	9%
Current portion of secured loans						
RUB, fixed	2	12%	4	11%	1	11%
U.S.$, variable	3	3%	—	—	—	—
Current portion of unsecured loans						
RUB, fixed	2	11%	3	10%	7	9%
U.S.$, variable	16	3%	38	5%	98	6%
RUB, variable	—	—	—	—	10	8%
U.S.$, fixed	—	—	—	—	2	5%
EUR, fixed	—	—	—	—	1	6%
	827		**151**		**373**	
Non-current liabilities						
Secured loans						
RUB, fixed	3	12%	1	11%	1	12%
U.S.$, variable	24	3%	—	—	—	—
Unsecured loans						
RUB, fixed	—	—	1	11%	5	10%
RUB, variable	—	—	—	—	2	7%
EUR, fixed	—	—	1	6%	3	6%
U.S.$, fixed	—	—	1	24%	10	5%
U.S.$, variable	39	3%	147	5%	257	6%
Unsecured bond issues						
U.S.$, fixed	296	9%	297	9%	299	9%
	362		**448**		**577**	

The following table sets forth the MMK Group's total cash and cash equivalents by currency and type of account as of 31 December 2004, 2005 and 2006:

	31 December		
	2004	2005	2006
	(millions of U.S. dollars)		
Bank accounts, RUB(1)	142	140	75
Bank accounts, USD(2)	29	23	52
Bank accounts, EUR(3)	5	4	6
Bank accounts, CHF(4)	—	2	1
Bank deposits, RUB(5)(6)	1,619	898	148
Bank deposits, USD(5)(7)	61	41	8
Bank deposits, EUR(5)(8)	—	20	—
Bank promissory notes, RUB(9)	4	3	44
Bank promissory notes, USD(10)	—	4	—
Bank promissory notes, EUR(11)	14	—	—
Cash equivalents, RUB(9)	10	3	4
	1,884	**1,138**	**338**

Notes:

(1) This is referred to as "RUR bank accounts" in the notes to the 2004/2005 Financial Statements.

(2) This is referred to as "USD bank accounts" in the notes to the 2004/2005 Financial Statements.

(3) This is referred to as "EUR bank accounts" in the notes to the 2004/2005 Financial Statements.

(4) This is referred to as "CHF bank accounts" in the notes to the 2004/2005 Financial Statements.

(5) Bank deposits, such as call deposits, generally have higher interest rates than bank accounts.

(6) This is referred to as "RUR denominated Russian bank deposits" in the notes to the 2004/2005 Financial Statements.

(7) This is referred to as "USD bank deposits" in the notes to the 2004/2005 Financial Statements.

(8) This is referred to as "EUR bank accounts" in the notes to the 2004/2005 Financial Statements.

(9) The amounts under "Bank promissory notes, RUB" and "Cash equivalents, RUB" were summed and classified as "Other RUR denominated cash equivalents" in the notes to the 2004/2005 Financial Statements to U.S.$14 million in 2004 and U.S.$6 million in 2005.

(10) This is referred to as "USD denominated liquid bank promissory notes" in the notes to the 2004/2005 Financial Statements.

(11) This is referred to as "EUR denominated liquid bank promissory notes" in the notes to the 2004/2005 Financial Statements.

Foreign currency exchange risk

The MMK Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the U.S. dollar, the MMK Group's functional and reporting currency. The currencies giving rise to this risk are primarily the Russian rouble and the euro. Foreign currency exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. See "—Key Factors Affecting the MMK Group's Results of Operations—Exchange rates." Derivative instruments, consisting primarily of foreign currency forward and option contracts, are utilised by the MMK Group to manage its exposure to fluctuations in foreign exchange rates. The MMK Group does not enter into foreign currency hedging contracts related to its investment in affiliated companies. All derivatives are recorded as either assets or liabilities in the consolidated balance sheet and measured at their respective fair values. The accounting for changes in the fair value of a derivative financial instrument depends on whether it has been designated and qualifies as an accounting hedge and further, on the type of hedging relationship. For a derivative not designated as a hedging instrument, the gain or loss is recognised in earnings in the period of change. For the year ended 31 December 2006, no derivatives were designated as hedges and a net loss of U.S.$0.4 million relating to a change in the fair value of derivative instruments was included in net foreign exchange loss in the consolidated statement of operations. For the years ended 31 December 2005 and 2004, the MMK Group did not have any derivative financial instruments.

Interest rate risk

The MMK Group incurs interest rate risk primarily on loans and borrowings. The interest rate and terms of repayment of loans are disclosed above in "—Liquidity and Capital Resources—Financial investments". The MMK Group borrows on both a fixed and variable interest rate basis. All variable interest rate loans and borrowings are repriced on a monthly to semi-annual basis, in accordance with the terms of the applicable loan documentation. Changes in interest rates impact primary loans and borrowings by changing either their fair value, as with fixed rate debt, or their future cash flows, as with variable rate debt. Management does not have a formal policy of determining how much of the MMK Group's exposure should be to fixed or variable rates. However, at the time of additional debt financing, management uses its judgement to decide whether a fixed or variable rate would be more favourable over the expected term. The MMK Group does not currently use derivative financial instruments to reduce exposure to fluctuations in interest rates.

Credit risk

Financial instruments that potentially subject the MMK Group to significant credit risk consist primarily of cash and cash equivalents, bank deposits and accounts receivable. The MMK Group has bank accounts held in OJSC Credit Ural Bank ("OJSC CUB"), a related party of the MMK Group. The MMK Group also holds significant amounts of cash in bank deposits in Russian banks. Credit risk exposure evaluations are performed for all banks in which the MMK Group holds deposits on a monthly basis, and for all customers requiring credit over a certain amount. The MMK Group evaluates the creditworthiness of its customers prior to the granting of any credit, in certain cases, without requiring guarantees or letters of credit, and thereafter monitors the exposure to potential losses from providing credit. The MMK Group generally does not require collateral or other security to support financial instruments with credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset and the contractual amounts of the financial guarantees.

If MMK changes its customer payment terms (such as extending payment terms) in order to increase its competitiveness, the level of the MMK Group's accounts receivable and credit exposure may increase.

Fair value risk

MMK's management estimates the fair values of the MMK Group's financial assets and liabilities as not being materially different from their carrying values. The estimate of fair value is intended to approximate the amount at which the financial instrument could be exchanged in a current transaction between willing parties, and is subject to management judgement and economic uncertainties.

Commodity price risk

In the normal course of its business, the MMK Group is exposed to risk resulting from fluctuations in the market prices of commodities and raw materials. In general, management manages this risk with the use of long-term sales or supply agreements in certain instances. See "Business—Raw Materials and Energy".

Critical Accounting Estimates and Policies

The preparation of the consolidated financial statements requires the management of the MMK Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include valuation allowances for receivables and deferred income tax assets, liabilities for deferred income taxes and the recoverability of intangible assets and other long-lived assets. MMK's management bases its estimates on the historical experience of the MMK Group and on other assumptions that MMK believes to be reasonable under the circumstances and evaluates these estimates on an ongoing basis. Actual results may differ from those estimates. MMK's management believes that the following are the most critical accounting estimates and policies used in the preparation of the MMK Group's consolidated financial statements. A summary of significant accounting policies is more fully described in note 2 of the 2006 Financial Statements.

Trade and other receivables

Accounts receivable are stated at their net realisable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the MMK Group's best estimate of the amount of probable credit losses in the MMK Group's existing accounts receivable balances. In estimating the allowance, MMK's management considers a number of factors including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance. Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required.

Income tax

The MMK Group records a valuation allowance to reduce its deferred tax asset in amount that is more likely than not to be realised. Deferred tax assets are reviewed at each balance sheet date to determine whether or not management believes it is probable that the assets will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recorded on the consolidated balance sheet. In estimating levels of future profitability, the MMK Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an increase in valuation reserve will be required, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the valuation reserve could be reduced, with a corresponding credit to income.

Impairment of assets

The MMK Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the MMK Group estimates the recoverable amount of the asset. This requires the MMK Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Recent Accounting Pronouncements

For recent accounting pronouncements, see note 2 to the MMK Group's 2006 Financial Statements included elsewhere in this Prospectus.

Recent Developments

The MMK Group expects for the first quarter of 2007 net revenue from continuing operations to be not less than, and costs of products sold (exclusive of depreciation and amortisation) to be generally in line with, net revenue and costs of products sold (exclusive of depreciation and amortisation) for the corresponding period in the previous year. The MMK Group expects income from operating activities and net income for the first quarter of 2007 to be not less than results for the corresponding period in the previous year.

INDUSTRY

The following information includes extracts from information, data and statistics extracted from public and other sources MMK believes to be reliable. MMK accepts responsibility for extracting and reproducing accurately such information, data and statistics. As far as MMK is aware, no facts have been omitted that would render such information, data and statistics misleading, but MMK accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Global Overview

World steel production in 2005 increased by 6.7 per cent. from 2004, to 1.13 billion metric tons, according to the IISI. The value of the global steel market was estimated to be U.S.$958 billion at the end of 2005. According to IISI's preliminary valuation, world steel production in 2006 increased by 8.8 per cent., compared to 2005, to 1.24 billion metric tons.

The global steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, the international trade of rolled-steel products and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry specific economic conditions.

The steel industry is cyclical and highly competitive. From 1997 to 2001, the business environment in the steel industry was challenging, resulting in financial difficulties for a number of steel companies. At the same time, these difficult market conditions encouraged several companies to implement operational efficiency programmes in order to improve their respective financial profiles. Due to growing demand from Asia and the steel industry rationalisation resulting in part from the protective tariffs imposed by the United States in 2001, by 2004, worldwide supply and demand were more in balance and steel production was constrained by the limited supply of raw materials largely due to growing demand for raw materials by Chinese steel producers. This led to substantial increases in production costs, and a corresponding increase in prices for steel, that continued into early 2005. In the second and third quarters of 2005, there was downward pressure on prices due in part to increased steel production in China and high inventory levels, which were accumulated during the rising price environment in 2004. Prices increased in 2006 as compared to 2005, as worldwide supply increased to meet demand. At the same time, the steel sector has faced increasing raw materials and energy costs.

The steel industry operates predominantly on a regional basis as a result of the high cost of transporting steel. For example, the top five producers in each of Japan and the EU control more than 60 per cent. of their respective regional markets, which can lead to short-term price differentials. However, despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, levels of global imports and exports have generally increased in the last decade as production has shifted towards low-cost production regions such as China, Brazil, India and the CIS.

Production and Consumption Trends

While steel production has historically been concentrated in the European Union, North America, Japan and the former Soviet Union, steel production in China and elsewhere in Asia has grown in importance over the past decade. In each of 2005 and 2006, China was the largest single producer of steel in the world, producing 353.4 million metric tons of crude steel in 2005 and 418.8 million metric tons of crude steel in 2006, as well as the largest consumer of steel, consuming 350 million metric tons of crude steel in 2005 and 390 million metric tons of crude steel in 2006. The following table sets forth estimated crude steel production data by country for 2000 through 2006:

	World Steel Production						
	2000	2001	2002	2003	2004	2005	2006 (estimated)
				(million metric tons)			
Europe	308.9	304.8	308.7	320.3	339.7	333.7	354.4
of which:							
EU (25)	186.7	180.5	180.9	184.5	194.2	187.3	198.4
EU (15)	163.4	158.5	158.7	161.0	169.1	165.1	173.3
Russia and the CIS	98.5	99.7	101.2	106.5	113.4	113.2	119.7
North America	135.4	119.9	122.9	126.2	134.0	127.6	131.5
of which:							
United States	101.8	90.1	91.6	93.7	99.7	94.9	98.5
South America	39.1	37.4	40.9	43.0	45.9	45.3	45.3
Africa	13.8	14.9	15.8	16.3	16.7	17.9	18.5
Middle East	10.8	11.7	12.5	13.4	14.3	15.3	15.4
Asia	331.9	353.9	394.9	442.4	510.1	591.1	665.7
of which:							
China	127.2	150.9	182.2	222.4	280.5	353.4	418.8
Japan	106.4	102.9	107.7	110.5	112.7	112.5	116.2
Australia/New Zealand	7.8	7.9	8.3	8.4	8.3	8.6	8.7
World total	**847.7**	**850.5**	**904.0**	**970.0**	**1,068.9**	**1,139.6**	**1,239.5**

Source: IISI 2006 Summary; February 2007

While production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on the rolling and finishing of semi-finished products. The industry is currently seeing a shift in demand from "commodity steel" to "high value-added steel" or "specialised steel" in developed markets.

The term "commodity steel" refers to low-grade steel used primarily for traditional construction processes and in other basic structural components. Asian steel producers have emerged as the largest producers of commodity steel, as the majority of consumption of commodity steel is in Asian and other emerging markets. The terms "high value-added steel" or "specialised steel" refer to high-grade steel, typically produced with varying alloys to improve strength and/or corrosion resistance. High value-added steel is used primarily by the automotive, aerospace and railway industries. Prices and margins for high value-added steel tend to be higher than for commodity steel due to the unique structural/chemical characteristics of high value-added steel which its end users demand.

The following table sets forth estimated crude steel consumption data by country or region for 2000 through 2006:

	World Steel Consumption						
	2000	2001	2002	2003	2004	2005	2006 (estimated)
				(million metric tons)			
Europe	203	200	198	203	215	211	220
of which:							
EU(25)	180	175	173	175	184	177	192
EU(15)	162	157	154	155	161	155	168
Russia and the CIS	39	42	39	47	49	51	59
North America	176	153	158	146	168	156	172
of which:							
United States	133	114	118	106	124	113	127
Central and South America	30	31	29	29	34	34	37
Middle East and Africa	38	44	49	53	57	56	65
Asia and Oceania	360	390	440	501	558	615	674
of which:							
China	138	171	206	259	300	350	390
Japan	80	75	74	76	80	83	81
World total	**847**	**859**	**914**	**978**	**1,082**	**1,133**	**1,227**

Source: IISI 2006 Summary; February 2007

Despite producing significant quantities of steel, the United States is a net importer of steel. By contrast, China, Japan and the CIS (including the Russian Federation) are net exporters of steel. Major traded steel products worldwide include semi-finished products, hot- and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and section bars.

The strategy and product mix of steel producers generally varies between producers in developed countries and producers in emerging markets. Historically, commodity steel producers in developed countries had limited access to export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in developed countries by taking advantage of the lower manufacturing costs due to advantages in cheap labour, energy and raw materials in their countries. In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins and reduce their exposure to commodity steel prices.

Consolidation

The historic growth and consolidation of both steel consumers and raw material suppliers weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have in more recent years responded with a phase of industry consolidation. In 2002, Usinor, Arbed and Aceralia in Europe merged to form Arcelor, and Kawasaki Steel and NKK in Japan merged to form JFE. In 2002, Nucor acquired the assets of Birmingham Steel and International Steel Group ("ISG"), acquired the assets of Acme, LTV and Bethlehem Steel in the United States. In 2004, Ispat International N.V. and LNM Holdings N.V., which comprised the LNM Group, merged to form Mittal Steel, and in early 2005 Mittal Steel merged with ISG. In 2006, the steel sector experienced further consolidation with Mittal Steel's merger with Arcelor. As a result of this merger, Arcelor-Mittal's global market share will increase and its annual production capacity is expected to reach approximately 116 million tons of steel, or 10.2 per cent. of total global steel production in 2006.

Consolidation has enabled steel companies to lower their production costs, has allowed for more stringent supply-side discipline, including through selective capacity closures, and has enabled some steel companies to achieve some degree of pricing power. Despite the recent consolidation, the global steel market remains highly fragmented. In 2005 the five largest producers—Mittal Steel (63 million metric tons); Arcelor (53 million metric tons); Nippon Steel (32 million metric tons); POSCO (30.5 million metric tons); and JFE Steel (30 million metric tons)—accounted for approximately 18 per cent. of total worldwide steel production, with Mittal Steel, the largest, accounting for less than 5.5 per cent. The 20 largest steel producers accounted for approximately 39 per cent. of total global steel production in 2005.

The Arcelor-Mittal transaction reflects the desire of many steel companies to integrate and consolidate in order to achieve some degree of pricing power and margin stability throughout the cycle. The steel industry remains one of the most fragmented industrial sectors and is significantly affected by economic cycles. Further merger and acquisition activity is expected in the future as steel producers look to acquire greater influence over market pricing, thereby reducing their vulnerability to future declines in demand. Industries including automotive, aviation and coke chemical are similarly affected by economic cycles and have sought to consolidate in order to minimise fluctuations in prices and margins throughout the cycle.

There has also been a recent trend of emerging market companies acquiring companies in developed markets to access high value-added segments. This has been seen in recent deals by Severstal in its acquisition of Lucchini SpA in Italy and Rouge Steel in the United States and Evraz in its acquisition of Palini & Bertoli in Italy and Oregon Steel in the United States and most recently in Tata Steel's acquisition of Corus.

Russian Steel Industry

The Soviet Union produced approximately 160 million metric tons of crude steel per annum at the end of the 1980s. Following the collapse of the Soviet Union, the steel industry suffered a substantial decline in production to about 75 million metric tons of crude steel for Russia and the CIS states in 1997. At that point, the Russian Federation was producing approximately 38 million metric tons of rolled products annually.

However, steel production started to recover following the devaluation of the rouble in 1998, due in part to the significant cost benefits that steel exporters experienced in 1999 and 2000. While the major mills were export-oriented and their sales were mostly U.S. dollar-denominated, their operating costs fell substantially in U.S. dollar terms following the devaluation. In addition, the strength of steel prices in 2000 led to increased capacity utilisation rates, even at technologically inferior mills. Though steel prices decreased in the second half of 2001 and the first half of 2002, beginning in the third quarter of 2002 the steel market demonstrated robust recovery in terms of both prices and volumes. From 2003 to 2006, production of steel in Russia and the CIS grew from 106.5 million metric tons to an estimated 119.7 million metric tons. Over the same period, consumption of steel in Russia and the CIS grew from 47 million metric tons to an estimated 59 million metric tons.

Privatisation of the Russian steel industry

Privatisation of the Russian steel industry began in 1992 and was primarily "insider" focused, meaning that factories were sold to their employees and management. The privatisation programme provided for Roskommetallurgiya (the successor to the USSR Ministry of Metals) to supervise the privatisation process, but no special regime was implemented for the privatisation of the steel industry and accordingly the number of state-owned steel companies declined rapidly so that, by mid-1994, the state's shareholding in iron and steel production companies amounted to only 15 per cent. to 25 per cent. By the end of 1995, control over most of the largest Russian steel producers, such as MMK, NLMK, Severstal and Mechel, was transferred to private management and ownership. However, because no plan for the privatisation of the steel industry was ever put in place, the state failed to attract the required investment, technology and know-how into this sector. Therefore, starting in 1995, the Russian government changed the method of privatisation to attract strategic investors into the sector.

The Russian steel industry is now consolidated among six large producers including MMK, Evraz, NLMK, Severstal, Metalloinvest/Gazmetall and Mechel. These producers largely control the domestic Russian market. Despite being predominantly focused on the domestic Russian market (except for Severstal, which has assets in Europe and the United States), assisted by cost advantages and domestic market growth, a number of Russian steel companies have completed primary and secondary issuances of shares on international markets. Mechel issued ADRs listed on the New York Stock Exchange in October 2004. Evraz issued GDRs listed on the London Stock Exchange in June 2005. NLMK issued GDRs listed on the London Stock Exchange in December 2005 and Severstal issued GDRs listed on the London Stock Exchange in November 2006.

Russian steel production

In 2006, the Russian Federation ranked as the world's fourth-largest producer of steel, producing 70.6 million metric tons of steel, or approximately 5.7 per cent. of global production based on IISI's preliminary evaluation. The metals sector is one of the most important sectors of the Russian economy. Russian enterprises produce a wide range of metal products for the domestic economy, in particular for the oil and gas, defence and construction industries. The sector has developed considerably since 1991 and is currently over 90 per cent. privatised.

Russian market

Russian steel production decreased from 1991 through 1998 as a result of the general economic decline in the Russian Federation during this period and the consequent reduced demand from the primary steel product consumers: construction, infrastructure and engineering industries and the military sector.

Consumption of rolled-steel products in the Russian Federation has followed a "U-shaped" trend since 1990. Consumption was 65 million metric tons in 1990 and then declined steadily, due to reduced consumption by heavy industry, to only 18 million metric tons in 1998. However, the devaluation of the rouble in 1998 resulted in economic growth and a sharp increase in domestic demand for steel products, and by 2006 the Russian Federation's total steel consumption had increased to in excess of 33 million metric tons.

Export market

Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. China, which is the largest steel consumer in the world, accounted for 9 per cent. of the Russian Federation's total steel exports in 2006, although the percentage of exports to China fell significantly in 2006. In 2006, according to data provided by Metal Expert, Russian producers exported 27.6 million metric tons of rolled products, of which semi-finished products (including pig iron, slabs and billets) accounted for 51 per cent., flat products for 35 per cent. and long products for 14 per cent. The abolition of steel export duties in 2002 by the Russian government has also improved export market opportunities.

Steel Production Process

For a brief summary of the steel production process, see "Business—Production—The steel making process".

Products

Steel products produced by MMK can be divided into four categories: long products, flat products, coated rolled products and formed sections.

Long products

Typical long products include profiles, which are produced by rolling a billet using rolls with grooves, bar sections, which are used in many industries, especially in construction and the assembly of engineering structures, sections, rods, wires and bars.

Typical customers for such products are metalware manufacturing plants, steel construction plants, plants manufacturing reinforced concrete products and construction companies. They are primarily used in the production of wire and fixing products and calibrated rolled products; the manufacture of building frames, supports for power transmission lines, bridge sections, panels and blocks made of reinforced concrete; the installation of building frames and the reinforcement of concrete roads, walls and floors.

Flat products

Flat products are made of steel which has been rolled at the rolling shops. Flat products have a smooth surface and are of different sizes and thicknesses and come in a wide variety of products, including coils, sheets and strips (both hot- and cold-rolled).

Typical customers for such products are pipe manufacturing plants, car plants, construction companies and machine building plants. They are primarily used in the production of welded pipes; the stamping of car parts and wheel disks and the manufacturing of building frames and machinery, storage reservoirs and tanks.

Coated rolled products

The process of coating may be thermal (dipping the steel into a bath of molten liquid coating metal) or electrolytic. Zinc is most often used for this purpose and can be applied both by the thermal and electrolytic methods. Steel coated with zinc is often called "galvanised steel". Coated rolled products are steel which is covered with a metal on polymeric coating to protect it from corrosion. MMK produces three main types of coated products: galvanised steel, tin-plate (or white plate) and polymer coated steel.

Typical customers for such products are companies producing roof-tiles, roofing and facades. They are primarily used in the profiling, cutting and production of ready siding.

Formed sections

Formed sections are steel products of various sizes and forms produced by cold-forming an initial rolled products in a profile bending machine.

Typical customers for such products are railroad car construction plants, car plants and road construction companies. They are primarily used in the production and repair of railroad cars, locomotives and other rolling stock and the production of car parts and road fences.

BUSINESS

Overview of the MMK Group

General

The MMK Group is one of the top three steel producers in Russia by sales and volumes of crude steel produced in 2006, according to data published by Chermet. MMK believes that it has the broadest product range of any Russian steel producer and is one of the leading steel producers in the Russian Federation in the production of certain types of value-added steel products, such as polymer coated steel, galvanised steel and tin-plate, based on data published by Chermet. MMK believes that the MMK Group's (i) focus on the production of steel and increasing emphasis on the delivery of value-added steel products, (ii) strong position in the attractive Russian steel market, (iii) low cost and efficient production, (iv) experienced management team and highly trained workforce and (v) investment in plant and equipment are the factors that have driven the improvement in its net revenue from U.S.$4,829 million in 2004 to U.S.$6,424 million in 2006 and driven its adjusted EBITDA from U.S.$1,735 million to U.S.$2,005 million over the same period.

In recent years, the MMK Group has increased its strategic focus on the Russian and CIS markets, generating 62 per cent. of its net revenues from sales within Russia and the CIS for the year ended 31 December 2006 compared with 55 per cent. in 2004, and MMK intends to further increase the proportion of the MMK Group's domestic sales, with a particular focus on value-added steel products, such as cold-rolled steel and downstream products. According to Chermet, based on 2006 production, the MMK Group is one of the largest Russian producers of downstream products (a category of products which includes galvanised steel, polymer coated steel, tin-plate, high quality cold-rolled band and formed sections). During the year ended 31 December 2006, the MMK Group generated 38 per cent. of its net revenues from sales to its export markets, in particular those in the Middle East, Europe, Asia and North America.

MMK also believes that the MMK Group's strong position in the Russian domestic market and its focus on value-added steel products leave it well-placed to benefit from high growth sectors of the Russian market, such as the pipe-making, automotive and construction industries. For example, recently announced major pipeline projects and plans by foreign automobile companies to build plants in Russia are expected to increase the domestic demand for certain of the value-added steel products currently produced by MMK. In particular, MMK believes that the MMK Group will benefit from the relationships it has been able to establish with a number of domestically-based steel consumers, such as with members of the TMK Group in the pipe-making industry and with pipe-makers such as the UMC Group and the Chelyabinsk Pipe-Rolling Mill Group and automotive plants such as Avtovaz and GAZ. MMK also intends to continue to look for specific opportunities to further expand the MMK Group's existing customer base. In addition, MMK believes that the MMK Group benefits from a well-diversified Russian customer base with very little customer concentration. In 2006, no single customer (excluding subsidiary traders) accounted for more than 5 per cent. of the MMK Group's total revenues.

Based on preliminary data for 2006 published by WSD, MMK believes that the MMK Group's production cost per metric ton of hot-rolled coil was one of the lowest among major steel producers. At the end of the 1980s, the MMK Group implemented its modernisation and investment programme, originally scheduled to run until 2010 and now extended to 2013, which was intended to modernise the MMK Group's production facilities and enable it to enhance the downstream processing of steel and continue to improve the quality and diversity of its products. Since 1996, the MMK Group has invested in excess of U.S.$3.2 billion in the modernisation and investment programme and its subsequent investment programmes, creating what MMK believes to be one of the most modern and efficient steel production facilities in the Russian Federation. MMK believes that these investment programmes have been and remain crucial to the MMK Group's ability to compete in the steel production market. MMK's management expects to continue to make significant capital investments and expenditures going forward.

MMK's management believes that the MMK Group's highly skilled employees are some of the best-trained and most well-paid in the Russian steel industry and it is committed to the continued education and training of employees. The MMK Group had an average of 55,572 employees in 2006 compared with an average of 57,815 employees for 2005. In 2006, the average salary of a MMK employee was RUB 19,852 (U.S.$754) per month and MMK's management expects this average to increase in 2007 by approximately 25 per cent. from the 2006 level.

The MMK Group's net income for the year ended 31 December 2006 was U.S.$1,426 million, compared to U.S.$947 million for the year ended 31 December 2005 and U.S.$1,232 million for the year ended 31 December 2004. For the year ended 31 December 2006, MMK's annual output of crude steel amounted to 12.5 million metric tons. This was an increase on the output of 11.4 million metric tons during 2005 and 11.3 million metric tons during 2004. MMK estimates that it is capable of producing up to 14.1 million metric tons of crude steel a year with its current facilities and workforce. MMK sold (including sales to subsidiary traders) 11.3 million metric tons of commercial steel products (including downstream steel products) in 2006, as compared to 10.2 million metric tons in 2005 and 10.1 million metric tons in 2004.

Incorporation and history

MMK is an open joint stock company incorporated under the laws of the Russian Federation. MMK's charter states in clause 3.1 that the main aim of MMK is earning profits. MMK is registered in the Unified State Register of Legal Entities in Russia under registration number 1027402166835. Its registered address is 93 Kirova Street, Magnitogorsk, Chelyabinsk region, 455000, Russian Federation, telephone number (+7 3519) 24 78 22.

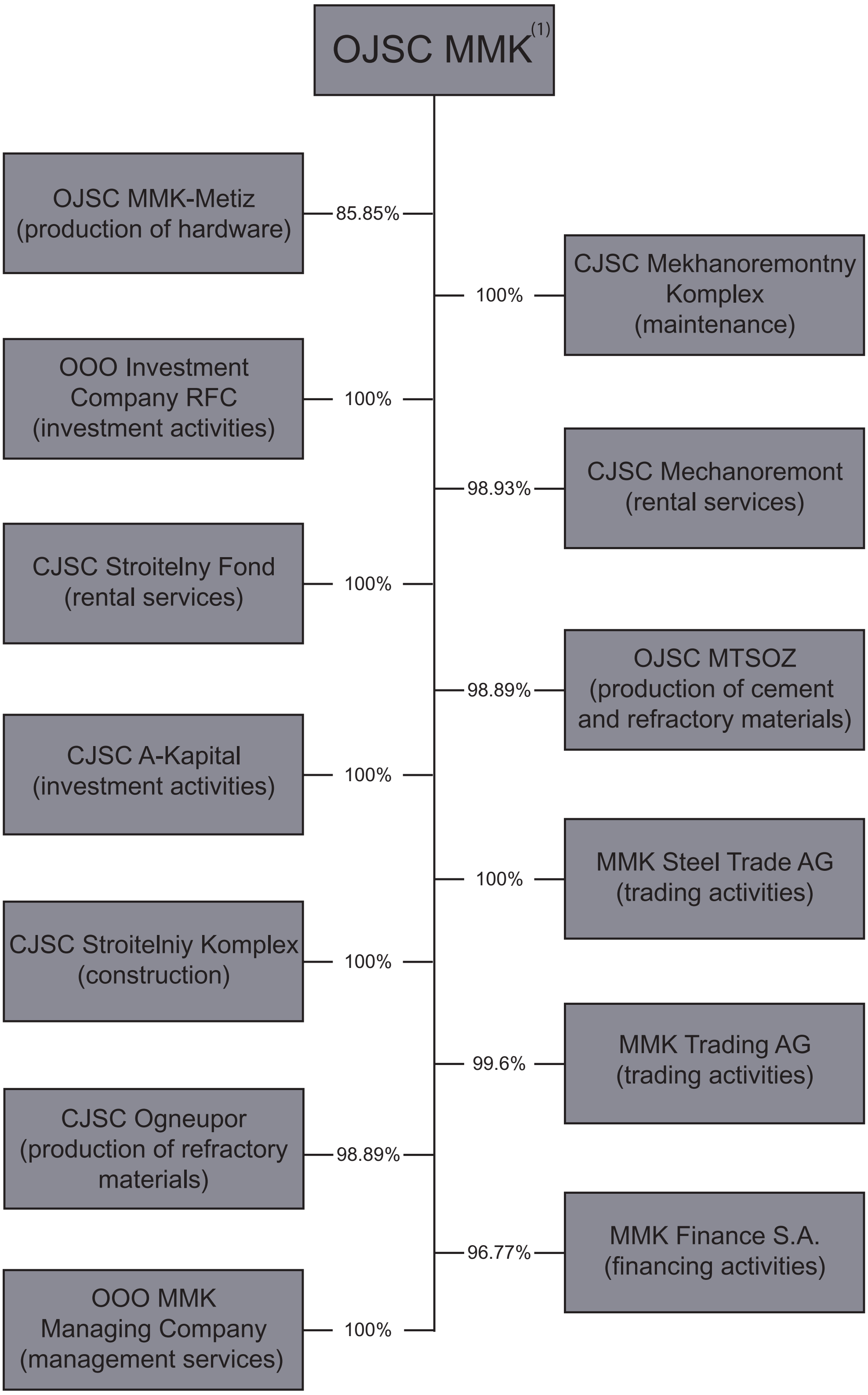
The original steel making site now operated by the MMK Group was established as a state-owned enterprise in February 1929, near a major iron deposit discovered at Mount Magnitnaya. MMK first produced cast pig iron in February 1932, began smelting steel in 1933 and became an integrated steel mill in 1934 when production of rolled steel commenced. MMK's production of new steel grades and armoured plate started in 1941 and in 1969 cold-rolled sheet was first produced on MMK's 2,500mm cold-rolling mill. By 1990, MMK had commissioned its first basic oxygen furnace ("BOF") converter.

By resolution of the State Committee for the Management of State Property of the Russian Federation dated 8 October 1992 No. 531-r, and as part of the Russian Federation's privatisation programme, state enterprise Magnitogorsk Iron & Steel Works was reorganised as OJSC Magnitogorsk Iron & Steel Works, an open joint stock company under the laws of the Russian Federation, for an unlimited period of time. MMK was registered by a resolution of the Mayor of Magnitogorsk No. 211-P dated 17 October 1992 (certificate of registration No. 186). Further sales by the Russian Federation took place in 2004 and 2005. MMK's privatisation was completed on 22 December 2004, when the Russian Federation disposed of its remaining 23.79 per cent. holding in the ordinary share capital of MMK to UFGIS Structured Holdings Limited, via an auction administered by the Russian Federal Property Fund.

In July 2006, MMK's Ordinary Shares were listed on to the "B" list of the MICEX and RTS exchanges in Moscow. As at 12 February 2007, approximately 2.68 per cent. of MMK's share capital outstanding at such date was held by the public and approximately 1 per cent. was traded on such markets. See "Description of Share Capital, Rights Attaching to Ordinary Shares and Applicable Russian Law" for a full description of the share capital of MMK.

Organisational structure

The chart below sets out the structure of the MMK Group's primary subsidiaries, including the percentage effective ownership interest held by the MMK Group as at 31 December 2006:



Note:

(1) Includes interests held through MMK's subsidiaries.

After MMK's initial privatisation, part of the assets of the privatised entity were spun off to subsidiaries, the majority of which were directly involved in MMK's manufacturing process. These subsidiaries, together with MMK, currently represent the major part of the MMK Group.

MMK is the principal operating company of the MMK Group. MMK manages its operations as described under "Management and Corporate Governance". The MMK Group consisted as at 31 December 2006 of 58 companies, including MMK. These companies encompass the full steel production cycle and allow the MMK Group to produce both commodity and value-added steel products. In addition to these core activities, the MMK Group operates a variety of support and ancillary activities through a network of directly- or indirectly-held subsidiaries and affiliates. The majority of these subsidiaries and affiliates are located in or near to the head office of the MMK Group in Magnitogorsk.

In 2000, the MMK Group established MMK Steel Trade AG, and in 2002 established MMK Trading AG, each being an international trade company based in Switzerland. See "—Sales and Marketing". The MMK Group also includes OJSC MMK-Metiz ("MMK-Metiz"), the main activity of which is the production of highly processed metalware products, hardware and fasteners. See "—Production".

Competitive Strengths

MMK believes that the MMK Group benefits from the following strengths:

Focus on the production of steel products.

The MMK Group's focus on the production of steel, with an emphasis on the sale of value-added products, has allowed it to develop a broad range of high-quality steel products and decrease its exposure to mining cost inflation, which can significantly increase the costs of such operations and impact profitability. MMK's management believes that this focus has underscored the MMK Group's revenue growth in recent times, reflecting the contribution of increasing volumes as well as improved pricing, and attractive operating income margins. MMK's management is seeking to secure long-term contractual arrangements with key suppliers in order to improve the security of supply of its key raw materials and has made limited investments in other mining companies in order to mitigate its exposure to disruptions in third-party supply.

Well positioned in the expanding Russian and CIS markets.

The MMK Group has become increasingly focused on the sizeable and growing Russian and CIS market, with 62 per cent. of the MMK Group's total revenues from sales in 2006 taking place in Russia and the CIS, as compared to 55 per cent. in 2004, a trend which has been driven by increased volumes and an increased proportion of those sales represented by value-added products. Stable growth of Russian GDP and metal consuming industries has increased steel consumption in Russia and underpinned year-on-year consumption and production increases. MMK's management expects that the rate of growth in demand for steel in Russia will continue to exceed the rate of growth in supply of steel in the near to medium term. Russia's crude steel consumption per capita remains significantly lower than in other industrial countries (according to IISI, in 2005, 267 kilograms as compared to 378 kilograms in the United States, 468 kilograms in Germany and 1,002 kilograms in South Korea).

The growth of the Russian economy has particularly benefited sectors that the MMK Group has been targeting and in which it has a strong presence, including production of large-diameter pipes for use in oil and gas projects, to be implemented by OJSC AK Transneft and OJSC Gazprom, cold-rolled products for use in the automotive industry and various products for use in machinery production and the construction industry. MMK believes that planned oil and gas projects, such as the East-Siberia-Pacific Ocean ("ESPO") and North-European ("NEP") pipelines, and automotive investments in Russia by companies such as Ford, General Motors, Volkswagen and Nissan will continue to drive steel demand in Russia. Additionally, the MMK Group is exceptionally well placed geographically to serve its key customer base, with over 40 per cent. of all domestic sales being within 500 kilometres of its single-site facility.

The MMK Group's presence in the Russian market allows it to take advantage of the premium pricing levels for steel products in the Russian market, relative to the pricing of products sold into the international export market. In 2006, the MMK Group's average sales price of long steel products in the domestic market was U.S.$435 per metric ton, compared with U.S.$362 per metric ton in the export market (net of transportation costs). This trend was also evident in respect of flat steel products (U.S.$533 per metric ton in the domestic market compared with U.S.$413 per metric ton in the export market (net of transportation costs)). These prices are the result of the strong demand outlined above and the additional costs of transporting and importing non-Russian steel products, which are ultimately borne by the Russian consumer. MMK believes that the continuing development and diversification of the Russian economy will continue to increase demand for the MMK Group's value-added products within Russia.

Broad product range with a focus on value-added steel products.

Based on published annual reports and other publicly available information, MMK believes that the MMK Group has the broadest product range of any Russian steelmaker. MMK also believes that the MMK Group has the highest proportion of value-added products in its portfolio compared with any other major Russian steel company. In 2006, value-added products (being polymer coated products, galvanised steel, tin-plate, strips, pipes and formed sections) constituted 14 per cent. of MMK's total output and the MMK Group is committed to further increasing production of value-added products and reducing the proportion of semi-finished products in its output. In 2006, the MMK Group had, according to Chermet, the largest share of Russian output of rolled products (19 per cent. of total Russian production output, as compared to Severstal with 17 per cent. and NLMK with 14 per cent.). In addition, in 2006, the MMK Group held, according to Chermet, the leading position in the Russian market for a number of significant value-added products. For example, in 2006, MMK believes, based on its analysis of publicly available data, that it accounted for 71 per cent. of sales of tin-plate, 56 per cent. of special formed sections and 38 per cent. of cold-rolled strip. The MMK Group also had the second-largest market share in Russia of sales of hot-rolled flat products (24 per cent.), galvanised flat products (22 per cent.) and pre-painted steel products (21 per cent.).

The MMK Group, via its subsidiary MMK-Metiz, is also a leading participant in the downstream product market in the Russian Federation, with MMK-Metiz being the second-largest hardware manufacturer in Russia in 2006, according to the Prometiz Association.

Strong position to benefit from growth in the Russian pipe manufacturing industry.

MMK believes that the MMK Group is currently one of the largest suppliers of hot-rolled steel products to the major Russian pipe manufacturers and is well positioned to benefit from expected growth in the Russian pipe-making industries. According to estimates from the Federal State Statistics Service, spending on Russian energy and pipelines is expected to increase at a compound annual growth rate of 6.8 per cent. through the end of 2010. In addition, there are currently several major Russian pipeline projects that have been publicly announced and are expected to be constructed by the end of 2010, including the ESPO and NEP projects. As a result, MMK intends to continue to seek opportunities to expand the MMK Group's production volumes and solidify its position in that market.

For example, in February 2007, the MMK Group announced a strategic co-operation memorandum with Russian pipemaker, OJSC TMK, whereby the two companies agreed to co-operate on future joint activities relating to the implementation of key technologies at their respective mills, the use of the MMK Group's products in the production of new types of pipes by TMK, and on future deliveries of broad sheets for large-diameter pipes.

In addition, the MMK Group is in the process of building its Mill 5000, which is expected to be capable of producing up to 1.5 million metric tons of rolled steel per year, producing steel plates with a thickness of 10.0mm to more than 50.0mm and with a width of 1,500mm to 4,850mm, with up to X100-X120 strength grade. MMK currently expects that construction of the Mill 5000 will be completed by the middle of 2009, and that production is scheduled to commence shortly thereafter following completion of equipment testing. The main consumers of sheet steel of such strength grade are producers of pipes for the oil and gas industry and energy automotive industry (such as boilers). In addition, such sheet steel may be consumed by the ship construction industry (to be used for ship hulls which are subject to high pressure). Sheets of lower strength grades may be also used in the construction of bridges and special industrial buildings.

Well-invested, low-cost production facilities

The MMK Group has the largest single-site steel-making facility in Russia, which MMK believes to be one of the most modern in the country. The MMK Group has invested in excess of U.S.$3.2 billion between 1996 and 2006 in the development and upgrade of its production capacity and efficiency levels, including U.S.$725 million in 2006, U.S.$580 million in 2005 and U.S.$407 million in 2004. MMK intends to continue the modernisation and investment programme and expects to spend approximately U.S.$782 million in 2007 and in excess of U.S.$5.2 billion between 2007 and 2013 in planned capital expenditures.

MMK also believes that the MMK Group is at the forefront of research and development and production efficiency innovations within the Russian steel industry. For example, MMK believes that the focus of the MMK Group on technical innovation has enabled it to assume a market leading position in the production and sale of value-added products, such as tin-plated and polymer coated steel products. In addition, the MMK Group has used its investment and modernisation initiatives to increase operational flexibility. For example, in 2005, the MMK Group installed a modern electric arc furnace complex (whose main input is ferrous scrap) with annual steel production capacity of 4 million metric tons, which has allowed the MMK Group to reduce its reliance on iron ore and coking coal and this, in turn, has improved the MMK Group's flexibility with regard to sourcing its raw materials. Furthermore, based on figures supplied by Chermet, in 2006, the MMK Group had the highest labour productivity per employee of any Russian steel manufacturer.

MMK believes that the MMK Group also benefits from lower costs for labour, raw materials and transport than those of many other countries in which the MMK Group's international competitors are based. MMK also believes that the MMK Group benefits from operating the largest single-site facility in the Russian Federation, allowing it to exploit economies of scale and reduce costs in areas such as logistics, through lower transport costs. In addition, the MMK Group's in-house power generation allows it to satisfy approximately 90 per cent. of its electricity requirements (based upon 2006 production levels), providing it with lower power costs. MMK expects that the introduction and development of increased steel-making capacity will lead to a decrease in this percentage, and plans to put into operation as part of its modernisation and investment programme further electricity generation facilities to maintain such percentage levels and to mitigate price increases which are expected to follow liberalisation of the Russian electricity generation market.

Experienced management team and high quality workforce.

The MMK Group benefits from an exceptionally professional and experienced management team, with its most senior group of executives having each worked a minimum of 23 years with the MMK Group. This is exemplified by MMK's chairman, Mr Rashnikov, who has spent his entire 39-year career working with the MMK Group in a number of different capacities. MMK's management has successfully overseen the implementation of the modernisation and investment programme and has also focused on implementing corporate governance best practices and sustaining strong employee relations.

The MMK Group has also benefited from its high-quality workforce and the positive relationship that it has with its employees and surrounding community. The MMK Group has developed an extensive system of training and educational development programmes to help its employees outperform their competitive peers. MMK believes that the skill, professionalism and commitment of the MMK Group's workforce have been, and will continue to be, key to the implementation of its modernisation and investment programme. Ultimately, MMK believes that the attractive compensation arrangements and other benefits offered by the MMK Group will continue to contribute to its appeal as an employer of choice in the region.

Sophisticated management information systems.

Starting in 2005, the MMK Group has operated a corporate management information system developed by Oracle. The Oracle system has allowed MMK's management to improve the collection, presentation and analysis of business-critical information. In particular, MMK's management believes that the Oracle system has helped improve the quality of financial and operating information, the analysis of which has improved the timeliness of their decision-making. MMK's management further believes that the implementation of the Oracle system has helped MMK improve its financial management, increase labour efficiencies and better manage operational and financial risks.

Strategy

MMK's key strategic goals are to maintain the long-term competitive position of the MMK Group in the global steel market and to increase MMK's value to its shareholders. MMK intends to pursue these goals through the following strategies:

Focus on the Russian and CIS markets and selectively pursue strategic opportunities internationally.

The Russian and CIS markets are the MMK Group's highest strategic priority for three key reasons. Firstly, these markets have seen rapid growth of steel consumption between 2003 and 2006 at a rate of

7 per cent. to 10 per cent. per annum, which MMK expects to continue for the near to medium term. Secondly, prices for steel products in Russia and the CIS have remained relatively stable over the past four years, often at a level higher than in international export markets. Thirdly, the MMK Group has established strong customer relationships and MMK believes that it benefits from the geographic location of its main production facility, which helps to reduce its customers' transportation costs.

MMK intends to continue to incrementally increase the proportion of the MMK Group's products being sold in the Russian and CIS domestic markets, in order to take advantage of attractive price levels and strong growth in underlying demand, particularly for value-added products. To further this aim, it has established a network of regional sales centres in key sales regions, including the Central, Povolzhsky and Urals regions of Russia, with a network of representative offices throughout the Russian Federation, which are able to trade on regional spot markets and access customers based in the region efficiently and effectively. The MMK Group plans to use similar initiatives in its export operations by establishing regional sales centres in the Middle East, North American and European (both Western and Eastern) regions and using the cost and efficiency benefits generated through its own transport company, MMK Trans, to compete more effectively.

MMK's international strategy is to focus on pursuing selected strategic opportunities in certain fast-growing economies, including in Asia, Asia Pacific and the Near East. MMK also expects to continue to develop the MMK Group's network of international service centres in regions where the demand for imported steel is particularly high.

Increase volume and proportion of high value-added steel products.

MMK intends to increase further production levels of value-added products, such as tin-plate, cold-rolled sheets, galvanised steel and polymer-coated steel, while reducing output of unfinished products and semi-finished products such as billets and slabs.

The MMK Group's investment policy, as set out in its long-term development plan to 2010, is aimed at further enhancing the MMK Group's high-technology iron and steel manufacturing process, specialised in the production of flat-rolled products and metal products with a high level of processing. Thus management considers the technical development and renewal of the MMK Group's existing capital assets to be high priorities, which have been, and will continue to be, supported by continued investment in advanced research and development capabilities.

Continue to pursue its modernisation and investment programme.

MMK intends to continue to upgrade and develop the MMK Group's production assets, including increasing its use of electric arc furnaces in its steel shops in order to continue to enhance its cost structure by reducing dependence on iron ore and coking coal and allowing sourcing of low cost scrap. MMK also intends to modernise existing white plate production facilities; increase the production volume of products with a high added value (such as galvanised products and coated products); organise the production of new types of products (such as hot-rolled plate and an increased range of cold-formed sections); and maintain product quality control. Other planned production investments include the upgrading of hot mills 2000 and 2500, construction of a second hot galvanising line, construction of a plate mill and investment in the cold-rolling shops to allow the manufacture of higher grade cold-rolled products. MMK is also pursuing a number of projects focused on reducing costs, such as investment in existing sinter production facilities, planning coke production and continued modernisation of existing blast furnaces. In respect of the environment, MMK intends to pursue further investment in the use of converter gas and processing iron-containing waste and reconstructing existing and constructing new facilities to protect open air and waters. MMK's management believes that the strength of the research and development capability of the MMK Group and the high quality of its employees have been, and will continue to be, essential to achieving its product and production efficiency objectives. As a result, MMK expects the MMK Group to continue investing significantly in the training and education of its workforce.

Secure long-term raw materials and energy supplies.

The MMK Group is continuing to take steps to secure its supplies of necessary raw materials, particularly iron ore and coking coal concentrate, in order to mitigate its reliance on third-party suppliers and to provide it with flexibility regarding its sourcing of raw materials. Accordingly, the MMK Group has concluded a series of five- and ten-year contracts with its key suppliers. See "Raw Materials and Energy". In addition, in November 2006, the MMK Group purchased a licence to develop the Prioskolsky iron ore deposit, which has estimated reserves of 2.1 billion metric tons of iron ore. In relation to coal supply, the MMK Group has entered into five-year supply contracts with OOO Raspadsky Ugol, OOO Kuzmetugol, CJSC Sibuglemet and OOO TD Mechel. The MMK Group holds a 50 per cent. interest in CJSC Kazankovskaya Coal Company, which holds a licence to mine the Kureinsky coking coal deposit, which has estimated reserves of 430 million metric tons based on preliminary evaluations. However, MMK does not currently expect that commercial mining at this project will begin in substantial amounts prior to 2015.

In addition, MMK intends to maintain the MMK Group's ability to generate approximately 90 per cent. of its own electricity requirements and will explore ways to become completely self-sufficient. MMK believes that this capability will continue to provide a significant cost advantage over the competitors of the MMK Group, with market prices for electricity in the Russian Federation in 2006 set at a level significantly higher than the MMK Group's estimated in-house electricity cost. MMK anticipates that the magnitude of this average cost advantage will increase in the near to medium term, as Russian government forecasts suggest that the market price of electricity will increase to U.S.$58/MWh by 2008 (although this cost advantage may be offset, in part, by increasing natural gas prices). See "Risk Factors—The MMK Group may be subject to increased prices and supply disruptions as a result of its dependency on a limited number of key energy suppliers".

Pursue high standards of corporate citizenship and governance.

MMK intends to continue to implement good corporate governance practices in line with international standards. MMK's Board of Directors includes five independent non-executive directors, two of whom are independent according to UK Corporate Governance Code standards, with four board committees established to address audit, staff and remuneration, investment policy and government relations and strategic planning and corporate governance (the audit committee and the staff and remuneration committee each being chaired by an independent director). MMK intends to continue implementation of an internal control system consistent with international best practices, including certain requirements of Section 404 of the U.S. Sarbanes-Oxley Act of 2002, and has engaged external consultants to assist in the design and implementation of these systems and controls. MMK also expects that the use of this management information system will assist in the accurate and timely preparation of the MMK Group's financial results and help it to monitor and assess the robustness of its internal controls.

MMK's management also believes that it is important for it to continue to be an example of good corporate citizenship and responsibility. The MMK Group has historically shown its commitment to the city of Magnitogorsk and the surrounding region, as an employer, a taxpayer and a provider of additional social services, and MMK expects to continue doing so in the future. Furthermore, MMK intends to continue to examine ways to minimise the MMK Group's impact on the surrounding environment.

Production

Overview

The MMK Group produces a wide range of ferrous metal products and is able to offer various customised steel grades. MMK's installed capacity for crude steel production currently amounts to approximately 14.1 million metric tons per year and actual output of commercial steel products was 11.3 million metric tons in 2006, an increase of 11.2 per cent. compared to 10.2 million metric tons during 2005. In total, for the year ended 31 December 2006, 12.5 million metric tons of crude steel were produced, a 9.4 per cent. increase from the figure of 11.4 million metric tons achieved in 2005.

Selected production figures

	Year ended 31 December		
	2004	2005	2006
	(in thousands of metric tons)		
Iron ore	1,498	1,528	1,468
Sinter	10,361	10,343	10,750
Coke (6% moist)	5,872	5,576	5,496
Pig iron	9,645	9,655	9,733
Crude steel	11,281	11,385	12,455

Products

MMK believes that, based on publicly available sources, the MMK Group manufactures the largest range of metal products of any Russian steel company. Following the completion of the first stages of its modernisation programme in 2004, the MMK Group was able to manufacture flat products, long products and value-added downstream products, as well as billets and slabs.

The diverse product line of MMK and MMK-Metiz includes the following categories and type of steel products:

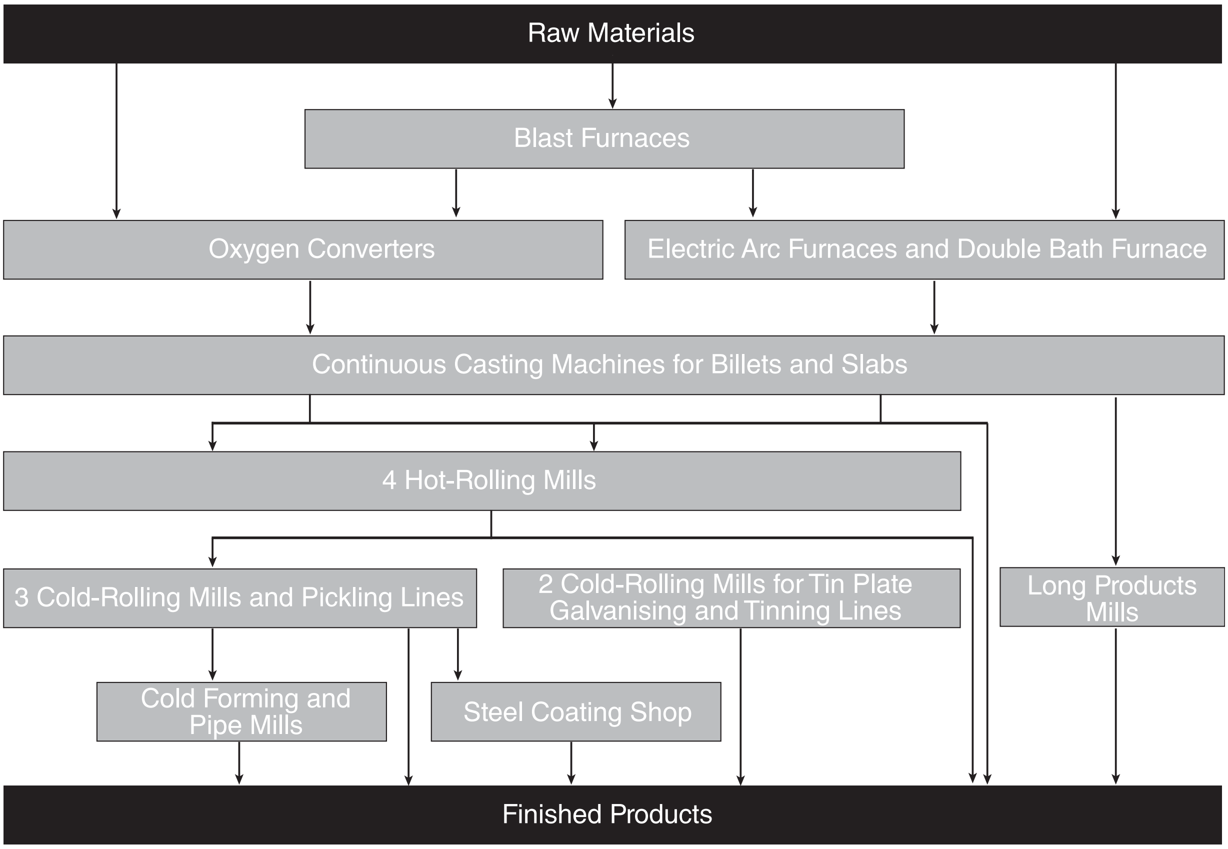
Category	Product	Uses
Slabs and Billets	*Slabs*	Hot re-rolling
	Billets	Square billets and rectangular billets for re-rolling
Flat Products (hot-rolled)	*Hot-rolled coils*	Cold rolling, welded pipes, welded, bolted and riveted structures, structural steel for construction, fabrication by forming, bending and welding, general purpose hot-rolled coils
	Hot-rolled sheets and plates	Welded, bolted and riveted structures, high-strength welded, bolted and riveted structures, structural steel for construction, fabrication by forming, bending and welding, bridge building, ship-building, boilers and pressure vessels, general purpose hot-rolled plates
	Hot-rolled strips and hot-rolled narrow coils	Cold re-rolling, welded pipes, general purpose hot-rolled narrow strips
Flat Products (cold-rolled)	*Cold-rolled steel products (in sheets and coils)*	Cold stamping of car parts and mechanisms, cargo package, armour protection of cables, preparation of caps for electric lamps, machines and mechanisms, general purpose uses
	Black plate (coil and sheet)	Production of tin-plate, various purpose black plate in sheets
	Cold-rolled strips	Fabrication by bending and stamping, pipes, tubes, bearing components, carbon structural steel for manufacturing machines and structural components, spring steel for springs and measuring tapes, low-carbon and low-alloyed steel for cargo tying and fastening
	Cold-formed sections	Welded, bolted and riveted structures, cold-rolled channels, cold-bent angles, high strength grade sections for the automotive industry, roadside railings
Long products	*Square bars*	Structural steel and square-rolled products for further hot-setting of railway fastenings
	Wire rod	Wire drawing, packing, strapping, manufacturing thin wire and steel ropes, metal cord, telegraph lines
	Round stock	Bars and bundles for hot and cold blanking, cold drawing, chiselling or wheel grinding, automobile spare parts, fasteners, metalware
	Hexagonal bars	Fastenings
	Die-rolled bars	Construction
	Hot-rolled angles	Equal and unequal angles for welded, bolted and riveted structures

Category	Product	Uses
	U-channels	Channels with flanged internal sides slanted for welded, bolted and riveted structures
	Beams	Construction structures
	Special purpose profiles	Extractive industry and motor and machinery-producing industries
Value-added downstream products	*Galvanised steel in sheets and coils*	Hot galvanised steel sheets and coils for cold stamping, cold shaping, paint coating, general purpose hot galvanised sheets
	Tin-plate in sheets and coils	Electrolytic tin-plate of canning quality for containers, vessels, cans and lids, electrolytic tin-plate for various purposes, electrolytic tin-plate with different coatings, general purpose electrolytic tin-plate, hot-tinning tin-plate of canning quality for containers, cans and lids, hot-dipped tin-plate for various purposes
	Polymer coated steel (cold-rolled galvanised and cold-rolled hot dipped galvanised)	Construction, household appliances, cover tile, other various purposes
	Electric-welded pipes	Galvanised pipes, water and gas supply pipes, metal construction
Metal components made of long products	*Wire made of low-, middle- and high-carbon steel with and without coating*	Armouring of reinforced-concrete products, production of nails, nets, electrodes, springs; production of cores of steel-aluminium wires, cellulose bundling, welding of pipes and car frames
	Cables (with and without coating)	Use in lifting devices
	Nails	Nailing together transportation crates, assembly of carcasses of wooden buildings
	Electrodes	Automatic and manual arc welding
	Railroad fittings (spikes, anti-theft, double coil washers, rod-shaped connectors, inserts, fish and terminal bolts with screws)	Materials of upper part of railway bed attaching rails to ties
	General-purpose fittings (bolts, screws, helical screws, self-tapping screws, concrete nails, rivets etc.)	Fastening of metal structures, car frames and elements
	Net	Production of net structures, fences, screening and separation of fractions of granular materials
	Flux cored wire	Out-of-furnace processing of cast iron and steel
Calibrated (cold-drawn) long products	*Long products made of low-, middle- and high-carbon, fine-machining and alloy steel with round and hexagonal section in bars and coils after cold drawing or chiselling*	Manufacturing of sections of machines and mechanisms, fasteners, springs

According to an analysis of the Russian steel market by Chermet, MMK is the only Russian steel company producing tin-plate for the food industry and formed sections for railway car-building. MMK believes that it is also the largest manufacturer of cold-rolled strip with enhanced geometrical and mechanical qualities for the Russian domestic market. In addition, newly installed machinery allows MMK to manufacture high-quality hot dipped galvanised sheets and polymer coated profiles for automotive plants and producers of household appliances. The pipe-manufacturing division of MMK also produces electric-welded water and gas supply pipes.

The steel products making process

The following diagram illustrates the principal steps in the production process of MMK's main steel products.



Production of coke

Coke contains 86 per cent. to 90 per cent. carbon and is used as the main fuel in blast furnaces.

MMK's coke production and coke by-products processing facility has an integrated technological structure, consisting of a coal preparation shop, three coke shops, two coke by-product shops, a coke by-product processing shop and a number of maintenance shops. The coal preparation shop accepts, stores and prepares coal for coking and supplies coal batches to the coke ovens.

Coke is produced in nine coke ovens. The maximum production capacity is currently 5.7 million metric tons per year for coke of 6 per cent. humidity. After reconstruction works planned as part of the ongoing modernisation and investment programme. See "—Modernisation and investment programme". This includes the construction of a new coke oven and the reconstruction of MMK's existing ovens, depending on MMK's requirements for pig iron, the production of coke could rise to 6.2 million metric tons per year. Of the total amount of coke manufactured by MMK, the vast majority is required for its own pig iron production, with a small amount sold to third parties if deemed surplus to MMK's own requirements. In 2006 and 2005, MMK produced approximately 5.5 million and 5.6 million metric tons of coke, respectively.

Sintering

Iron ore is the key raw material in iron production and can be used in two forms: sinter and pellets. Sinter is a product of the thermal processing of pre-mixed particles of sintering mixture, iron ore concentrate, iron-bearing tailings and flux, and coke breeze. MMK's sintering facilities consist of three sinter plants (containing in total 13 sinter machines with a summarised area of sintering of 1,011 square metres). In 2006, MMK produced approximately 10.8 million metric tons of sinter.

Blast furnace process

To smelt pig iron, iron ore products, principally comprising sinter and pellets, and coke and natural gas, are fed into eight blast furnaces, with a total useful volume of 12,180 cubic metres. In this mix, metal charge is melted into the mix of pig iron, carbonised iron and slag. The smelted product is released from the furnace on average 15 times per day. The pig iron is poured into hot-metal ladle cars and mixers and taken to the oxygen converter and arc-furnace plants for making into steel, while the slag is poured into slag ladle cars and taken to the slag plant for processing. In 2006, MMK produced approximately 9.7 million metric tons of pig iron.

Steel making

Molten pig iron is the main component of the metal charge used in the production of steel in MMK's basic oxygen converters. MMK produces all of the steel that it sells in three oxygen converters, two electric arc furnaces and one two-bath steel-making vessel. MMK's steel-melting shops also contain continuous casting machines and various steel finishing devices.

MMK's electric arc furnaces, manufactured by "VAI-FUCHS", are modern, with a nominal melting mass of 180 metric tons, the same as MMK's two-bath steel-making vessel. Electric furnaces may operate either without molten pig iron (with a 100 per cent. scrap metal charge and a name-plate melting cycle of 48 minutes) or with molten pig iron (with up to 40 per cent. molten pig iron in the charge and with a name-plate melting cycle of 44 minutes).

Molten pig iron is transported to the basic oxygen converter shop in hot-metal ladle mixers. The pig iron is poured into charging ladles and then into the converters. In addition to pig iron, the metal charge for these converters consists of scrap metal.

When the molten steel reaches a predetermined temperature, it is tapped from the furnaces and converters into a ladle, is processed at refinery units to specified grades of steel and is then cast into slabs and billets by one of MMK's seven continuous casting machines ready for use as a starting material in the production process of different steel products in the various rolling shops. In 2006, MMK produced approximately 12.5 million metric tons of crude steel compared with approximately 11.4 million metric tons in 2005.

Hot-rolled production

Hot-rolling is a process whereby slabs of steel are heated to a high temperature (approximately 1,250 degrees celsius) prior to rolling. This allows the production of high quality and high alloy steel products.

In order to produce hot-rolled flat products, slabs from the basic oxygen converter and electric arc furnace shops are transported to flat rolling shops. These slabs are heated in furnaces and are rolled in MMK's various hot-rolling mills to produce hot-rolled coils, which may be subject to further processing through cutting machines or through cold-rolling mills. MMK's hot-rolling shops contain a variety of other specialist machines, which produce long products, custom bars and structural shapes.

Cold-rolled production

Cold-rolling is a process whereby sheet steel produced as a result of hot-rolling is subjected to further rolling at a temperature lower than its recrystalisation point. This allows the production of steel sheet with a reduced strip width and other properties, such as surface finish.

In the subsequent cold-rolling shops, hot-rolled coil produced in hot-rolling shops is converted into various products through a series of intermediate processing phases, in which several processing methods and machines are used, depending on the final end product to be obtained. These processing methods and machines include pickling, cold-rolling mills, cutting and slitting lines, hot-dip tinning stacks and electrolytic tinning or zinc galvanising lines, moulded section production and electric welding pipe production. End products obtained in the cold-rolling shops are hot-rolled pickled coils, cold-rolled coils and strip, cold-rolled sheets (including those to be sold to the automotive industry), galvanised sheets, black plate, hot dipped tin-plate, electrolytic tin-plate, pipes, cold-formed sections, road barrier sections and die rolled sections.

Pipe products

Induction pipes are produced in Rolling Shop No. 7.

The rolling shop employs longitudinal slitting technology for hot-rolled steel with a thickness from 1.2mm to 8.0mm.

Hot-rolled coils are delivered to Rolling Shop No. 7 from Rolling Shop No. 4 and Rolling Shop No. 10, hot-rolled dipped straps are delivered from Rolling Shop No. 8. On the longitudinal slitting machine the coiled steel is cut into strips of 100mm to 500mm in width. The stripped steel moves to profile bending or pipe mills. Some products from the profile bending or pipe mills are transferred to the hot galvanising machine for coating. The ready-made products are delivered to the storage area and are shipped to the customers.

Facilities

The following table sets out production capacity and output for each of the years ended 31 December 2004, 2005 and 2006 at MMK's key facilities:

Type of processing stage	Key facilities	2006 Production capacity	Actual output 2004	2005	2006	2006 Capacity utilisation %
		(million metric tons per annum)	*(million metric tons per annum)*			
Production of coke and coke by-products	9 coke furnace batteries	5.7	5.9	5.6	5.5	91.6
Sintering	3 sintering plants	10.8	10.4	10.3	10.8	99.5
Blast-furnace process	8 blast furnaces	9.7	9.6	9.7	9.7	97.2
Steel-making	3 oxygen converters	10.3	9.8	10.1	10.3	96.9
	2 electric arc furnaces	4.0	—	—	1.2	57.2
	2-bath steel-making facility	1.0	1.5	1.3	1.1	100.0
Rolled production	Hot-rolled products	12.3	10.6	11.0	12.1	98.0
Long products lines	3 section mills	2.0	1.2	1.3	1.8	80.0
Hot-rolled sheets production shops	4 mills	10.3	8.7	9.3	9.9	96.5
Including commercial steel products		—	5.1	5.3	5.8	—
Cold-rolled sheets production shops	4 mills	3.0	2.4	2.7	2.7	87.1
Including commercial steel products		—	1.3	1.7	1.7	—
Electro-tinning lines	2 lines	0.3	0.3	0.3	0.3	89.7
Continuous galvanising lines	2 lines	0.6	0.6	0.6	0.6	99.4
Coating line	1 line	0.2	0.1	0.2	0.2	84.2
Electro-weld pipes production lines	3 lines	0.1	0.1	0.1	0.1	72.2

Approximately 4.6 per cent. of MMK's production was delivered to MMK-Metiz in 2006, part of the MMK Group, which specialises in the production of metal-ware products. The following table shows the production capacity and output for 2006 for MMK-Metiz's key products:

Type of product	Nameplate production capacity	Actual output in 2006	Capacity utilisation in 2006
	(thousand metric tons per annum)		*(per cent.)*
Sized steel	159.5	36.8	23.1
Steel wire	42.1	17.2	40.9
Steel ropes	43.2	22.7	52.6
Steel cold-rolled strip	222.8	116.1	52.1
Strip	165.7	82.6	49.9
Hardware	145.1	68.1	46.9
Wire	327.6	206.8	63.1
Welding electrodes	13.6	11.5	84.7
Flux cored wire	1.2	0.8	70.6
Wire nails	57.5	28.0	48.7
Steel net	16.2	8.1	50.0
Welded net	15.3	3.2	21.0
Flux cored wire	5.3	5.1	96.2
Total	**1,215.1**	**607.0**	**50.0**

Transportation of products

Due to its location in the southern Urals, the MMK Group depends on railway transportation to distribute its products, as well as to transport raw materials to its production facilities. At present, all of the MMK Group's products are transported by rail to customers or to ports for onward transportation by ship from seaports in St. Petersburg, Novorossiysk, Vladivostok, Astrakhan and Eisk. MMK effectively controls 47 per cent. of the voting stock of OJSC Vladivostok Trade Sea Port. The bulk of the MMK Group's steel products are sold under Cost and Freight ("CFR") terms (whereby delivery of MMK's steel products to the named destination port is at MMK's expense, with the buyer responsible for insurance, import customs clearance and other costs and expenses). The MMK Group relies predominantly on the rail freight network operated by Russian Railways, a state-owned company. As a result, the Russian government sets rail tariffs (which have been increasing in recent years) and may further increase these tariffs in the near to medium term, which will certainly increase the MMK Group's transportation costs, possibly significantly. In addition, if Russian Railways is privatised (which may occur after 2010) or the railways are significantly upgraded, the occurrence of either event could further contribute to increased tariffs.

In the future, MMK intends to increase exports of products under CFR terms, which MMK believes will optimise the transportation costs of the MMK Group's exported steel products, as such terms increase the MMK Group's level of involvement in, and control over, sea transportation and offer the MMK Group the possibility to participate in the pricing thereof.

OOO MMK Trans, an affiliate of MMK (see "Interested Party Transactions"), currently operates approximately 4,000 rail cars, which the MMK Group is able to use to transport approximately 42 per cent. of its export products. The MMK Group carries out both cargo and technological equipment transportation using its own facilities.

Modernisation and investment programme

The MMK Group implemented a modernisation programme at the end of the 1980s, based on technology proven in the international market and co-operation with internationally recognised engineering firms. The pace of the MMK Group's modernisation strategy has largely been dictated by the availability of internally generated funds. Between 1996 and 2006, the MMK Group's aggregate total capital expenditure (investments including those in intangible assets) was in excess of U.S.$3.2 billion, and for each of the years ended 31 December 2004, 2005 and 2006, the MMK Group invested U.S.$407 million, U.S.$580 million and U.S.$725 million, respectively. Between 2007 and 2013, MMK expects that it will make more than U.S.$5.2 billion in planned capital expenditures, U.S.$1.8 billion of which relates to projects which have already been commenced or in respect of which binding agreements have been entered into. MMK currently expects that this plan, if completed as anticipated, will result in the MMK Group being able to make approximately 15 million metric tons of commercial steel products per year by 2013.

Historic Investments

2001-2003

On 23 November 2001, MMK's Board of Directors approved a new investment programme for the period from 2001 to 2010. The key elements of the first stage of the programme (2001-2003) involved:

Project	Benefit
Continuous Casting Machine ("CCM") No. 3 renovation	Increased capacity—CCM annual production capacity increased to approximately 3 million slabs
Construction of continuous hot-dip galvanising line	Capacity of 500,000 metric tons of galvanised sheet—MMK now the largest Russian producer of galvanised sheet for the automotive industry
Cold-rolling shop renovation and installation of double-stand reverse mill	Increase in annual capacity by 800,000 metric tons and improved quality of product output
Sintering machine renovation	Production increase of 15 per cent. and improved quality of sinter
Installation of ladle furnace	Improved steel quality
Power units and oxygen plant renovation	Increased energy generation independence
Reconstruction of pickling lines, skin mills and construction of hydrogen chloride regeneration unit	Increase in capacity and decrease of line pollution by chloride ions
Construction of polymer coating facility	MMK now one of the leading producers of polymer coated products in the Russian market

The programme's first stage also included the commencement of the construction of a modern complex for long products to replace obsolete devices with modern long products mills and to establish electric steel-melting production instead of open hearth furnaces through the construction of two electric arc furnaces.

MMK believes that the implementation of these projects has allowed the MMK Group to increase its competitiveness, economic and production potential by increasing production output, profitability, the structure of marketable rolled steel products and the production of new types of steel products.

2003-2006

Based on the MMK Group's financial performance during 2004, then current forecasts and on developments since 2001, MMK's Board of Directors approved an updated investment programme for the period of 2004 to 2013 at its February 2005 meeting. The programme was intended to be implemented in three main stages: 2004-2006, 2007-2010 and 2011-2013. The principal objectives of this programme were raising the MMK Group's competitiveness in the steel and coated product markets, modernisation and upgrading of the MMK Group's existing equipment, new projects aimed at raising productivity and improving product quality, reducing production costs, expanding the MMK Group's own power generation facilities and lowering its energy consumption, reducing the MMK Group's negative influence on the environment to prescribed standards, addressing social issues and the further development of its social facilities.

Between 2003 and 2006 the MMK Group invested approximately U.S.$1,475.0 million in the programme, the key elements of which involved:

Sector	Investments	Amount U.S.$ mln, VAT exclusive (2003-2006)	Result
Sinter-blast furnace production	Reconstruction of sintering machines, modernisation and overhaul of blast furnaces	183.3	Growth of sinter production, the improvement of sinter quality Growth of pig iron production
Steelmaking	Modernisation and capacity expansion of oxygen-converter workshop	519.1	Assortment expansion and quality improvement of steel produced
	Launch of electric arc furnaces		
Rolling production	Reconstruction of hot-rolling mills 2000 and 2500	542.8	Production efficiency growth and assortment expansion
	Launch of polymer coating and galvanising facility		Quality improvement of bar iron produced
	Launch of continuous slab casting machine and two sorting continuous casting machines		Production of coated steel started The MMK Group became the largest supplier of galvanised steel for the automotive industry
	Launch of long products mills 450, 370 and 170		
Energy	Reconstruction of electric power installation	32.0	Increased in-house energy production and cost-cutting
Other projects		198.1	
Total		**1,475.0**	

As a result of its various investment programmes, MMK believes that the manufacturing and production efficiency of the MMK Group has steadily improved. Together with other measures taken to increase productivity (such as reductions in headcount and the production of increased levels of electricity within the MMK Group), MMK believes that the investment programmes implemented by the MMK Group have resulted in the MMK Group becoming one of the most efficient steel producers in the Russian Federation. In addition, new automated technologies and processes, such as those operating in the continuous hot-zinc galvanising line, have allowed the MMK Group to expand its range of products and to concentrate on value-added products. See "—Production—Products" and "—Strategy".

Continuation of modernisation and investment programme

From the beginning of 2007 through to the end of 2013, MMK expects to invest in excess of U.S.$5.2 billion (U.S.$1.8 billion of which is already committed in respect of projects which have already been commenced or in respect of which binding agreements have been entered into) in capital construction.

The table below sets forth MMK's planned capital expenditures (including VAT) from 2007 to 2013:

2007	2008	2009	2010	2011	2012	2013
			(millions of U.S. dollars)(1)			
782	954	958	884	773	500	382

Note:

(1) Figures are budgeted estimates only. Actual expenditure and timing will vary depending on external factors and the MMK Group's ability to generate funding for the projects from cash flows.

In particular, the modernisation and investment programme over that period provides for financing of the following projects:

Project	Approximate costs(1)(2)
	(millions of U.S. dollars)
Sintering and mining concentrating operations	269
Limestone-dolomite production	58
Coke chemical production	463
Furnace production	750
Steel-making	467
Rolling	2,239
Power utilities	671
Other	316
Total	**5,233**

Notes:

(1) Cost of the projects is given taking into account customs duties for imported equipment and VAT.

(2) Figures are budgeted estimates only. Actual expenditure and timing will vary depending on external factors and the MMK Group's ability to generate funding for the projects from cash flows.

Raw Materials and Energy

The main raw materials which MMK has to source for its metallurgical processing activities are iron ore, coal, scrap and ferroalloys. In addition, MMK takes limestone from its own pits and produces electricity, covering approximately 90 per cent. of its electricity consumption needs in 2006. MMK provides heating power to the city of Magnitogorsk and different workshops at its facility.

Availability of raw materials and energy

Substantially all of the coking coal required by MMK was supplied from the Kuznetsk Coal Basin in the Russian Federation and the Karaganda Coal Basin in Kazakhstan in 2004, 2005 and 2006. In 2004, Kuznetsk coal and Karaganda coal accounted for 94.2 per cent. and 4.2 per cent., respectively, of MMK's coal supplies; in 2005, 87.3 per cent. and 11.3 per cent., respectively; and in 2006, 83.7 per cent. and 2.3 per cent., respectively. MMK's consumption of coking coal in 2006 was 7.3 million metric tons.

MMK's principal supplier of iron ore is SSGPO, which is located 330 kilometres from Magnitogorsk in Kazakhstan. Practically all of the Russian Federation's significant iron ore deposits are controlled (whether by way of ownership or agreement) by the leading steel producing groups in Russia.

MMK's principal supplier of natural gas is Gazprom, through its subsidiary, OOO Chelyabinskregiongas.

MMK's principal supplier of scrap is CJSC Profit, an affiliate of MMK (see "Interested Party Transactions").

The following table sets out the main suppliers to MMK of key raw materials:

Name	31 December					
	2004		2005		2006	
	Raw materials costs	Raw material supplied	Raw materials costs	Raw material supplied	Raw materials costs	Raw material supplied
Iron ore concentrate	**20.5%**	**100.0%**	**17.9%**	**100.0%**	**12.1%**	**100.0%**
SSGPO (Kazakhstan)		47.6%		36.3%		73.4%
Mikhailovskiy GOK (Russia) (concentrate and sintering ore)		25.8%		6.1%		6.3%
Stoilenskiy GOK (Russia) (concentrate and sintering ore)		11.0%		22.6%		6.5%
Kovdorskiy GOK (Russia) (concentrate)		1.3%		14.7%		4.1%
Lebedinskiy GOK (Russia)		11.9%		4.6%		2.7%
Other suppliers (at least five suppliers, each less than 10%)		2.4%		15.7%		15.7%
Iron ore pellets	**26.0%**	**100.0%**	**22.7%**	**100.0%**	**11.6%**	**100.0%**
SSGPO (Kazakhstan)		85.4%		31.3%		88.7%
Kostamukshskiy GOK (Russia)		—		28.1%		10.5%
Poltavskiy GOK (Ukraine)		—		23.9%		4.0%
Other suppliers (at least five suppliers, each less than 10%)		14.6%		16.8%		0.8%
Coal	**24.6%**	**100.0%**	**29.8%**	**100.0%**	**21.9%**	**100.0%**
Kuznetsk suppliers (Russia)		94.2%		87.3%		83.7%
Karaganda suppliers (Kazakhstan)		4.2%		11.3%		2.3%
Other suppliers (at least one supplier, each less than 10%)		1.6%		1.4%		14.0%
Metal scrap	**11.9%**	**100.0%**	**14.0%**	**100.0%**	**30.4%**	**100.0%**
CJSC Profit (Russia)		100.0%		100.0%		100.0%

Iron ore

MMK consumed approximately 15.7 million metric tons of iron ore in 2006. The majority of the iron ore raw materials (iron ore concentrate and pellets) that MMK requires is supplied by SSGPO. In 2006, SSGPO supplied approximately three-quarters of MMK's total iron ore consumption, taking into account supplies of iron ore from MMK's own iron ore reserves. MMK is SSGPO's main customer and the exclusive buyer in the Russian Federation of its raw iron ore, purchasing approximately 63 per cent. of SSGPO's total output in 2006. MMK's alternative sources for iron ore are ore dressing plants located in the central part of the Russian Federation and the Urals, with which MMK has historically concluded annual supply contracts on market terms.

In March 2007, MMK entered into a ten-year supply contract with ENRC. MMK believes that total ore supplies over the term of the contract may amount to approximately 143.6 million metric tons, implying a contract value of approximately U.S.$8.4 billion. The contract provides that MMK will purchase a certain minimum volume of iron ore per annum. The price payable in respect of the iron ore supplied under this contract is agreed annually on the basis of generally prevailing world FOB prices published in the reports of Tex Report Limited and, in the event of multiple reports published in such period, the average of the prices published in such reports. Accordingly, MMK remains exposed to the risk of fluctuations in the price of iron ore on the international markets. MMK undertook in this contract to obtain certain corporate approvals by 1 September 2007 and currently intends to seek such proposals as soon as reasonably practicable before such date. See "Risk Factors—MMK has limited ability to reduce the volumes of iron ore that it is required to purchase under its long-term supply contract with ENRC (an affiliate of SSGPO) in the event that MMK's production levels decline".

In 2004, approximately 58 per cent. of MMK's demand for iron ore was satisfied by supplies from SSGPO. Iron ore was also supplied to MMK by producers in central Russia and from MMK's own iron ore reserves. In May 2005, commercial discussions between MMK and its key iron ore suppliers, Mikhailovskiy GOK, Lebedinskiy GOK and SSGPO, broke down, and these suppliers ceased shipment of iron ore to MMK. MMK concluded new iron ore supply contracts with alternative suppliers from Ukraine

(Poltavskiy GOK, Severniy GOK) and Russia (Kostomukshskiy GOK). In addition, MMK benefited from the cancellation of import tariffs on iron ore and the reduction of applicable railway tariffs introduced in respect of the transportation of Ukrainian iron ore to Russia. These measures allowed MMK to meet its demand for iron ore in 2005. Subsequently, later in 2005, negotiations with SSGPO and the other major Russian iron ore suppliers resumed and new contracts with such entities were concluded. In order to fully meet its demand for iron ore, MMK also from time to time acquires iron ore in the Russian market at market prices.

MMK owns iron ore reserves at open-cast mines near Mount Magnitnaya and in Malyi Kuybas which historically have provided approximately 10 per cent. of MMK's total iron ore consumption and which it does not expect to be, based on its current reserve and consumption estimates, fully depleted until 2013. MMK plans to further develop and reclaim certain abandoned workings at the Malyi Kuybas open-cast mines and the Podotvalnoye ore deposit. In January 2007, MMK purchased a 51 per cent. stake in OOO Bakalskoye Rudoupravleniye ("Bakalsky RU"), a Urals-based iron ore producer with up to 1 billion metric tons of iron ore reserves, for cash consideration of U.S.$15 million, as part of its strategy to secure raw material supplies. MMK expects this producer to supply between 1 and 2 million metric tons of iron ore per year, depending on MMK's requirements. MMK expects that, as a result of this work, MMK's own iron ore base in the Chelyabinsk Region, including Bakalsky RU, will increase its supply of iron ore to MMK to provide approximately 20 per cent. of MMK's total iron ore consumption (based on 2006 production and consumption levels).

According to the reserves amounts set forth in licences issued by federal authorities, the iron ore reserves in the Urals region are expected to provide supplies for approximately 20 years from Malyi Kuybas and for more than 100 years from Bakalsky RU (based on 2006 production and consumption levels).

In addition, in December 2006, MMK acquired for RUB 630 million (U.S.$23 million) at an auction the licence to develop the Prioskolsky iron ore deposit in the Belgorod region of Russia. MMK believes the deposit to be one of the largest in the Kursk magnetic anomaly with estimated reserves of 2,109.6 million metric tons of iron ore, containing 29.14 per cent. of magnetic reserves estimated by category B + C1 + C2 including high grade iron ore containing 51.39 per cent. of iron, estimated by category C1 + C2. It is currently expected that production at the mine will commence in 2013, and MMK expects that the deposit will provide 20 million metric tons of iron ore to MMK by 2017.

Coal

MMK used approximately 7.3 million metric tons of coking coal concentrate in 2006. In 2006, approximately 83.4 per cent. of MMK's coking coal concentrate supplies came from the Kuznetsk coal basin in Kuzbass in the Russian Federation. MMK has historically been able to acquire coal at prices below average global prices. In 2006, MMK also purchased coal from the Karaganda coal basin in Kazakhstan, as well from the Sakha Republic (Yakutia) in the Russian Federation.

During 2006, MMK entered into contracts with certain coal companies for the supply of coal concentrate to MMK, under which the volume of coal concentrate supply were fixed for a year, and the prices were revised on a quarterly basis, depending on the market situation. Terms of delivery were determined for each supplier on a separate basis. However, one of MMK's key strategic priorities in its relationship with coal concentrate suppliers is entering into long-term contracts with a volume of supply fixed for a five-year period and prices adjusted once a year depending on the market environment.

Accordingly, in 2006 and 2007, MMK entered into long-term (five-year) contracts with OOO Kuzmetugol (providing for deliveries of 1,560 thousand metric tons per year), CJSC Sibuglemet (providing for deliveries of 900 thousand metric tons per year), OOO Raspadsky ugol (providing for deliveries of 2,160 thousand metric tons per year) and OOO TD Mechel (providing for deliveries of 2,040 thousand metric tons per year) for the supply of coal concentrate. Each of these contracts provides for annual revisions of price by reference to market rates. MMK expects these contracts will provide approximately 90 per cent. of MMK's coking coal needs (based on 2006 production and consumption levels).

The MMK Group holds a 50 per cent. interest in CJSC Kazankovskaya Coal Company, which holds a licence to mine the Kureinsky coking coal deposit, which has estimated reserves of 430 million metric tons based on preliminary evaluations. However, MMK does not currently expect that commercial mining at this project will have substantial production prior to 2015.

Limestone

In 2006, MMK used approximately 1.1 million metric tons of limestone. MMK sources all of its limestone from MMK's own mines, located 30 kilometres from Magnitogorsk, which allows MMK to control supply and is less expensive than purchasing equivalent supplies at market prices. MMK has reserves estimated at 162.5 million metric tons, which MMK expects to be sufficient for approximately 60 years of continuous production (based upon 2006 production levels).

Ferroalloys

MMK is able to meet almost its entire annual ferroalloys requirement of approximately 188,000 metric tons per annum (based upon 2006 production levels) through supplies purchased at market prices from OJSC ChEMK, OJSC Satkinsky Cast Iron Plant and OJSC Serovsky Ferroalloy Plant within the Russian Federation, Nikopol Ferroalloy Plant, Stakhanvosky Ferroalloy Plant and Zaporozhsky Ferroalloy Plant in Ukraine, Zestafon Ferroalloy Plant in Georgia, Aksunsk Ferroalloy Plant and Aktyibinsk Ferroalloy Plant in Kazakhstan.

Scrap

In 2006, 100 per cent. of MMK's scrap was supplied by CJSC Profit, a party related to the MMK Group. See "Interested Party Transactions". MMK has developed a programme with CJSC Profit to create a network of companies procuring and supplying scrap. Currently, this network involves two companies (OJSC Chelyabchermet and OJSC Bashvtormet), six sites and approximately 50 companies and production facilities in various regions and three in each of the Omsk and Tyumen regions.

Electric power

MMK consumed approximately 6.2 billion kw/hour of electricity in 2006. MMK generated 5.5 billion kw/hour in 2006 to cover approximately 90 per cent. of its electric power requirements in 2006 at its own generating plants using natural blast-furnace and coke gas and coal as fuel and purchased the remainder on the retail market from OOO Magnitogorsk Energy Company (676 million kw/hour in 2006). MMK estimates that it is able to generate electricity for a cost that is approximately 2.5 times cheaper than the price MMK pays for electricity from OOO Magnitogorsk Energy Company, which is the energy supplier to the Magnitogorsk electricity network.

Gas

In 2006, MMK consumed 4.19 billion cubic metres of natural gas, supplied by Gazprom through OOO Chelyabinskregiongas (a subsidiary of Gazprom), and by OJSC Novatek, an independent supplier. In 2006, the average cost of natural gas to MMK amounted to RUB 1,170 per thousand cubic metres of natural gas (including transportation to MMK by pipelines owned by OOO Mezhregiongas but excluding VAT). MMK has concluded contracts with OOO Chelyabinskregiongas for the supply of 3,057.8 billion cubic metres of natural gas annually and with OJSC Novatek for 1,250 billion cubic metres annually at prices to be revised annually based upon prevailing market prices.

Water

MMK has its own water catch basin at its site in Magnitogorsk which provides all of the water required in the manufacturing process.

Seasonality

In view of its geographical location in a harsh climate zone, MMK requires additional winter provisioning of one month's supply of iron ore and coal and two months' supply of scrap to provide the materials needed for approximately one month of production, as extreme low temperatures significantly limit MMK's capability to prepare supplies for its production process. MMK's policy is to maintain at all times an adequate reserve of raw materials to safeguard the business operations of MMK for a period of one month in the event of supplies being interrupted. MMK maintains standing norms (measured in days) for such reserves. During winter, additional reserves of certain raw materials are prepared.

Transport of raw materials

MMK's main raw and semi-finished materials, being iron ore, coal and scrap, are transported by railway. The basic level of tariffs is regulated by the Price List 10-01 approved by the Regulation of the Russian Federation Federal Energy Committee No. 47-t/5 dated 17 July 2003. The tariffs are increased on an annual basis by resolution of the Russian Federation Federal Energy Committee and historically such growth has not generally exceeded the rate of inflation.

Scrap is collected within approximately 3,000 kilometres of the plant. However, the tariffs for scrap transportation are two to three times higher than the tariffs for transportation of other raw materials.

The cost of the transportation of natural gas from independent suppliers using Gazprom's network was RUB 382.4 per thousand cubic metres in 2004; RUB 470.65 per thousand cubic metres in 2005; and RUB 510.0 (U.S.$19.37) per thousand cubic metres in 2006. Beginning 1 March 2007, the Federal Tariff Service has increased transportation tariffs by 15 per cent. which will mean a price of RUB 586.5 (U.S.$22.27) per thousand cubic metres.

Sales and Marketing

General

The MMK Group has a diversified customer base in both domestic and international markets. The MMK Group sells domestically throughout the Russian Federation and the CIS, and principally within Russia to the following regions of key strategic significance: the Urals, the Volga region and the Central region. The Urals region has the highest level of steel consumption in the Russian Federation and more than 40 per cent. of all of MMK's sales in the Russian Federation is shipped to customers within 500 kilometres of its production facility in Magnitogorsk.

The MMK Group's international sales are primarily made to the following markets: the Middle East, Europe, Asia and the Far East and North America.

The MMK Group has been active in the international steel market since 1991. In recent years, the proportion of exports to total deliveries has gradually decreased, due to the improvements in the Russian and CIS economies and the resulting increase in domestic demand. In 2006, 38 per cent. of the MMK Group's sales revenues were generated in the export market compared with 53 per cent. in 2002. This reflects the MMK Group's strategy to benefit from the value-added nature of its domestic sales and the current level of premium pricing in the Russian Federation and the CIS markets.

The following table sets forth information on the volume of MMK's commercial steel products sold (including sales to subsidiary traders) by type and market for the three years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December					
	2004		2005		2006	
	(in thousands of metric tons, except for percentages)					
Billets and slabs	**722**	**7.1%**	**425**	**4.2%**	**332**	**2.9%**
Russia and CIS market	24	0.2%	7	0.1%	2	—
Export	698	6.9%	418	4.1%	330	2.9%
Long products	**1,174**	**11.6%**	**1,098**	**10.8%**	**1,706**	**15.0%**
Russia and CIS market	1,060	10.5%	1,005	9.9%	1,545	13.6%
Export	114	1.1%	93	0.9%	161	1.4%
Flat products(1)	**6,593**	**65.0%**	**7,136**	**70.0%**	**7,729**	**68.1%**
Russia and CIS market	2,798	27.6%	2,928	28.7%	3,305	29.1%
Export	3,795	37.4%	4,208	41.3%	4,424	39.0%
Downstream products	**1,647**	**16.2%**	**1,542**	**15.1%**	**1,579**	**13.9%**
Russia and CIS market	1,121	11.1%	1,172	11.5%	1,219	10.7%
Export	526	5.2%	370	3.6%	360	3.2%
Total(2)	**10,137**	**100%**	**10,201**	**100%**	**11,346**	**100%**
Russia and CIS market	5,003	49.4%	5,112	50.1%	6,071	53.5%
Export	5,133	50.6%	5,088	49.9%	5,275	46.5%

Notes:

(1) Flat products comprise hot-rolled coils (5,262 thousand metric tons, 5,438 thousand metric tons and 6,095 thousand metric tons in 2004, 2005 and 2006, respectively) and cold-rolled coils (1,331 thousand metric tons, 1,698 thousand metric tons and 1,634 thousand metric tons in 2004, 2005 and 2006, respectively).

(2) Totals may not add due to rounding.

The greatest share of MMK's export shipments consists of flat products, both hot-rolled and cold-rolled. These products made up 84 per cent. of export shipments by volume in the year ended 31 December 2006. However, the share of slabs and billets in the overall volume of export sales by volume is steadily decreasing from 14 per cent. in 2004 to only 6 per cent. in 2006.

One of the MMK Group's main objectives is to increase domestic sales. In order to do so, the MMK Group is working to improve its integration in the national economy of the Russian Federation and across the CIS region, taking into account the structural changes that have taken place. The MMK Group has created vertical marketing systems, starting to form a holding company with iron and steel hardware and sizing plants. To increase the MMK Group's domestic sales, the MMK Group has established and continues to enhance its own service and sales network in the Russian Federation. MMK believes this has helped the MMK Group increase its share in Russia of rolled metal products. Lastly, MMK plans to attract new customers by continuously improving the quality of the MMK Group's products and marketing strategy.

Analysis of domestic and export sales

The following is an analysis of the domestic and export sales of MMK, the principal operating company of the MMK Group.

Domestic sales

MMK sells the majority of its products in the Russian market (approximately 70 per cent.) directly to key customers (the majority of which are on the basis of 12-month contracts) and the remainder through its regional service centres on the spot markets.

The main domestic sales of MMK are directed at industrially developed regions, namely the Urals, the Volga region and the Central region, which have the highest demand for steel products.

MMK's most important clients are companies within the metalware industry (including pipe and tube plants), engineering companies and construction companies. MMK believes that it maintains well-established relationships with major consumers.

MMK's strategic focus on the domestic market includes the aim of becoming the main strategic steel supplier to major consumers within certain industry sectors, that are the most solvent purchasers for such products and least exposed to seasonal fluctuations in steel consumption. In addition, many of the major steel consumers in the Russian Federation and across the CIS region have publicised development strategies that provide for increased levels of steel consumption, which allows MMK to target specific projects and industry sectors.

The following table sets out the main third-party consumers by volume of MMK's steel products in the Russian market based on the volume of total deliveries to such market for the year ended 31 December 2006:

Third-party consumer	Year ended 31 December 2006
	(in per cent.)
OJSC Seversky Pipe Mill	5.2
OJSC Vyksunsky Steel Plant (OMK)	3.1
FGUP PO Uralvagon zavod im. Dzerzhinskogo	2.5
OJSC Volzhskiy Pipe Mill (TMK)	2.2
Service Centre of OOO Magma Trade	1.9
Almetievskiy Pipe Mill (OMK)	1.9
OOO Viz-Stal	1.9
OJSC Chelyabinsk Pipe Rolling Mill	1.8
OJSC Uraltrubprom	1.5
Service Centre of OOO Uralsibtrade	1.4
Total (10 largest)	**23.4**

The following table sets out a breakdown of MMK's volume of products sold (including to subsidiaries) by industry sector within the Russian market for the year ended 31 December 2006:

Industrial sector	Flat products	Value-added downstream products	Long products	Total
		(in per cent.)		
Steel making	48	8	27	34
including pipe production	*38*	*7*	—	*22*
MMK-Metiz[(1)]	*5*	—	*27*	*9*
Processing plants	*4*	*1*	*0*	*2*
Machine building	28	49	6	27
including automotive	*12*	*11*	*1*	*9*
Construction	1	3	7	3
Food industry	—	14	—	3
Power and fuel	1	1	1	1
Bridge building	1	1	1	1
Regional distribution	21	25	58	31
Total Russian market	**100**	**100**	**100**	**100**

Note:

(1) Member of the MMK Group.

Exports

MMK sells its steel products in more than 70 countries. Exported products are sold through a network of traders in various parts of the world (two of which, which sell substantially all of such exports, are owned by MMK), who on-sell to various end consumers. Total export sales (by volume) increased from 1.9 million metric tons in 1992 to 5.3 million metric tons in 2006.

The following table sets out, by volume, the regions in which the products of MMK were sold (including by traders to end customers) for the years ended 31 December 2004, 2005 and 2006:

Regions	Years ended 31 December 2004	2005	2006
		(in per cent.)	
Middle East	24	36	43
Asia and the Far East	45	39	12
Europe	19	15	22
North America	6	3	11
Africa	5	6	8
Other	1	1	4
Total	**100**	**100**	**100**

All of MMK's export sales are made through a network of traders in various parts of the world. The largest purchasers of MMK's exported products are MMK Metal Ltd. (not related to the MMK Group), MMK Trading AG (a subsidiary of MMK) and MMK Steel Trade AG (a subsidiary of MMK). For the year ended 31 December 2006, MMK's subsidiary traders were responsible for 89 per cent. of MMK's export sales. MMK believes that this distribution structure guarantees a stable distribution network. Close to 50 per cent. of the MMK Group's exports are sold through traders for delivery to end-customers. Export deliveries to traders are performed on Free Carrier ("FCA") terms (being delivery to a specified point at the seller's expense, with the buyer being responsible for the main costs of carriage, insurance and other costs and risks), and then further deliveries to customers by such traders are performed on Free on Board ("FOB") terms (being the delivery of goods on board a vessel at port at the seller's expense with the buyer responsible for main costs of carriage, insurance and other costs) or CFR terms (30 per cent. and 70 per cent. of sales, respectively, at the end of 2006).

The following table sets out the main purchasers of MMK's products by volume in the export market for each of the three years ended 31 December 2004, 2005 and 2006:

Purchaser	Years ended 31 December		
	2004	2005	2006
		(in per cent.)	
MMK Metal Ltd.	73	29	8
MMK Steel Trade AG[1]	10	36	27
MMK Trading AG[1]	10	28	62
Other	7	7	3
Total	**100**	**100**	**100**

Note:

(1) Members of the MMK Group.

Research and Development

The MMK Group operates a central control laboratory and a technical division and has contracts for research in place with various scientific and technological establishments. The MMK Group spent approximately RUB 120 million (U.S.$4.56 million) on research and development for the year ended 31 December 2006.

The MMK Group's research and development activity is aimed at maximising the development of value-added products and semi-finished products and achieving sustainable environmental improvement.

The MMK Group's concentration on research and development activities is aimed at developing competitive products and environmental protection measures based on:

- the implementation of new technologies at metallurgical treatment plants and the deep refining of metals;
- expanding the range of its product lines (sheet and grade); and
- the reduction and optimisation of production costs.

Amongst the most significant research and development projects in 2006 were those related to sintering, blast-furnace smelting technology, specialised loading systems for blast furnaces, a uniform database of roller guide condition for continuous casters, determination of the toxicity of the MMK Group's production waste and the influence of the MMK Group's liquid waste on bodies of water.

In 2005, the MMK Group patented 65 inventions and models and obtained 17 certificates for computer programs. During that year, 46 inventions and models were implemented into the MMK Group's operations. In 2006, 12 applications for the protection of intellectual property were submitted to the patent agency based on the results of research and development work, and ten patents for inventions and useful models and IP certificates for software were received. The MMK Group is the patent and certificate holder on all designs. See "—Intellectual Property".

These patents, inventions and models relate to the steel manufacturing process and the equipment that MMK uses to manufacture steel.

The MMK Group's other capital expenditure commitments are set out under "—Modernisation and investment programme" above.

Intellectual Property

As at 31 December 2006, the MMK Group had 165 patents for inventions, 166 patents for models, 28 software certificates and one trade mark certificate (Certificate No. 21618 of 17 April 1962). The MMK Group's patents for inventions and models are aimed at protecting new steel qualities and the technologies of their production, protecting new technology for the production of the MMK Group's steel products and the improvement of the quality thereof, improving steel production equipment and constructing new machines. The MMK Group's software is aimed at optimising management, analysis, control over technological equipment and optimising work with informational sources. The MMK Group maintains all necessary licences (including those for the production of steel in converters, the production of pig iron and construction and materials production licences) that it requires to operate its business. The MMK Group's department for inventions and patents is responsible for the upkeep and maintenance of the MMK Group's intellectual property rights.

Quality Assurance Programme

The MMK Group's current quality management system was commenced in 1999 in order to ensure that all manufactured and delivered products meet or exceed the requirements of consumers and regulators. In 2002, the MMK Group passed for the first time its certification audit with RW TÜV (Germany) and in January 2006 the auditors TÜV NORD CERT (Germany) completed their certification and supervisory review and issued the following certificates of compliance:

- ISO 9001: 2000 in relation to: designing, developing and producing limestone, lime, dolomite, break-stone, clay, sinter, pig iron, slabs continually concast for hot-rolling, hot-rolled and cold-rolled coils, strips, sheets and bands, cold-rolled tin-plate, galvanised rolled metal and colour coated rolled metal, electric-welded steel pipes and galvanised pipes and steel roll-formed sections; and
- ISO/TS 16949 in relation to: designing, developing and producing cold-rolled metal in coils, hot galvanised rolled metal and cold-rolled strip from low-carbon steel for the automotive industry.

The MMK Group has also received 21 certificates of conformance for its products from various domestic and international certifying bodies, such as "Mosstroycertificatsiya", "Russian Maritime Shipping Register", "Russian River Register", "Lloyd's Register" and "Germanischer Lloyd" and a TÜV NORD certificate authorising the use of the "CE" symbol marking on hot-rolled section steel products, strips and sheets made of construction steel of S 235 to S 355 strength class according to EN 10025-2.

From 2006, the requirements of ISO 9001: 2000 have been applied to the design, development and production of all of the MMK Group's products.

The MMK Group's compliance with ISO standards is monitored by an independent division of the MMK Group. The quality requirements of steel consumers have become more stringent, and MMK believes that product quality is an important competitive factor. The MMK Group uses advanced testing equipment for on-line quality control at different stages of product life cycle. In addition to the MMK Group's own inspection systems, the quality of shipbuilding steel is often verified by a representative of the buyer at the MMK Group's facilities before shipment. Further certifications are planned and the next supervisory audits of the MMK Group's quality management system is scheduled for March 2007.

Information Technology

In 2005, the MMK Group introduced a corporate information system based on 36 modules of the Oracle E-Business Suite. The corporate information system covers all areas of the MMK Group's production process and business activities and is used in all production and supplementary shops within the MMK Group's organisational structure, and certain of its subsidiaries. In addition, the system is capable of being easily scaled and accessible on an international basis. Employees using the system input actual data on the MMK Group's activities in real-time and create necessary reporting documents directly in the system.

In September 2005, the MMK Group executed a contract on the establishment of a corporate management system for reference data to be used in the MMK Group. The project is to be executed within 25 months between September 2005 and September 2007. In September 2007, as a part of the system, MMK expects to introduce an automated management system for the bulk of reference manuals used by the system. In total the project will combine 219 reference manuals.

In 2006, the MMK Group continued the improvement of the system and introduced 16 subsystems for the main system modules, including a tax accounting subsystem, the evaluation of the property, plant and equipment under IFRS, and annual planning and budgeting of repairs and capital repairs for 2006 as well as certain types of repairs for 2007.

Competition

Large steel groups based in the Russian Federation, Ukraine, Turkey and China are MMK's main competitors in the MMK Group's key markets, such as the Russian Federation, the CIS, the Middle East and South-East Asia. The most significant among them are groups with production facilities in primary locations in the Russian Federation and in countries in the CIS.

In the domestic market the MMK Group faces competition from Severstal, NLMK and OJSC Uralskaya stal for flat products; and from Severstal, Evraz, combining the assets of OJSC "NTMK", OJSC "ZSMK" and OJSC "NKMK" and Mechel, combining the assets of OJSC "Chelyabinskiy MK", OJSC "BMK" and OJSC "Izhstal" for long products. In addition, in the domestic market the MMK Group has experienced competition from the producers of rolled steel in Ukraine and Kazakhstan, including System Capital Management (Ukraine), combining the assets of OJSC "Azovstal" and "Enakievskiy MZ"; Arcelor-Mittal, combining the assets of OJSC "Mittal Steel Krivoy Rog" (Ukraine), OJSC "Mittal Steel Temirtau" (Kazakhstan); "Donbass Industrial Union" (Ukraine), combining the assets of OJSC "MK im.Dzerjinskogo", OJSC "Alchevskiy MK"; and Midland Resources (Great Britain), combining the assets of OJSC "Zaporozhstal" and OJSC "Volgogradskiy MZ Krasny Oktyabr".

As a result of the attractive prices for steel products currently available on the Russian domestic market, it is a highly competitive market. MMK believes that an increase of steel imports may become the major threat in the domestic market for the MMK Group, but this will be prevented whilst the Russian government continues to protect the domestic market against unfair competition. Recently, the Russian government has announced the implementation of anti-dumping duties on nickel-coated rolled steel from European Union countries. The duty is €840 per metric ton, effective from 20 March 2007. If the European Union imposes anti-dumping duties or tariffs or takes other measures in response to these recently announced anti-dumping duties, the MMK Group's exports to the European Union market could be significantly affected.

The main challenge for the MMK Group on the export markets is related to the significant impact of Chinese producers on the global market and restrictive measures on the EU and U.S. markets.

The steel market in the Russian Federation is characterised by a high level of consolidation. The process of consolidation of Russian steel and iron producers is in its final stage, with all major material metallurgical assets already forming part of larger holdings, many of which are now listed on an international stock exchange. The announced strategic focus of many large domestic steel producers is now aimed at forming vertically-integrated structures. No significant change to the current make-up of the Russian rolled steel market is expected in the next three to five years.

In the medium term, MMK believes that the construction of new mini-mills may result in new long and galvanised products producers appearing in Russia. However, MMK does not believe that such mini-mills would significantly affect the MMK Group's market position, as the Russian market has demonstrated, and is expected to continue to demonstrate, rapid growth, leading to shortages in various types of product.

Based on data derived from Metall Expert, the following table sets out MMK's estimated share of volume of sales of the MMK Group and its main competitors in the Russian market for the years ended 31 December 2004, 2005 and 2006:

	As at 31 December		
	2004	**2005**	**2006**
		(in per cent.)	
MMK	18	17	17
Severstal	18	18	22
NLMK	9	9	10
Other Russian companies	42	44	40
Import	13	12	11
Total	**100**	**100**	**100**

The MMK Group's two main competitors in the Russian Federation are Severstal and NLMK Geographically, each of these principal competitors has different strengths. Severstal is located relatively close to the ports of the North West region, allowing it to save costs on shipments to the international markets. Novolipetsk is situated within the Kursk iron ore deposit area, giving it an advantage in terms of iron ore transportation costs. MMK, based south-east of the Urals, is closest to the main steel consuming regions in the Russian Federation.

Whilst Severstal benefits from its ownership of extensive iron ore deposits, MMK has entered into a long-term relationship with SSGPO. See "—Raw Materials and Energy". This benefits the MMK Group as its iron smelting process is specially adapted to the characteristics of SSGPO's raw material, allowing the MMK Group to both extend the life of its equipment and reduce maintenance costs.

In terms of labour productivity, MMK is the industry leader within the Russian Federation on the basis of data provided for September 2006 by OOO Chermet, producing 38.7 metric tons of rolled steel per worker per month, against 19.7 metric tons at Severstal and 20.7 metric tons at Novolipetsk.

MMK believes that the quality and range of the MMK Group's plant and equipment and products gives it a competitive advantage over its domestic competitors. MMK has eight blast furnaces, enabling it to repair them by turns without any significant cuts in production. Severstal has five blast furnaces, one of which accounts for 45 per cent. of total capacity and Novolipetsk also has five blast furnaces.

Severstal and Novolipetsk have previously benefited from newer machinery in terms of both plant and equipment, which were 25-30 years younger than the MMK Group's. However, the modernisation and investment programme and the MMK Group's subsequent investment programmes have led to MMK renewing and renovating its machinery. The MMK Group's expenditure for reconstruction and technology renewal in the past three years was in aggregate U.S.$1,712 billion, which has allowed MMK to maintain high production efficiency levels. See "—Modernisation and investment programme".

Health and Safety

The MMK Group's policy on industrial and occupational safety is based on the obligation to constantly improve industrial and occupational safety, as well as the obligation to ensure that the system for industrial and occupational safety corresponds with Russian legislation on industrial and occupational safety. In 2006, MMK recorded 19 industrial accidents, compared to 21 in 2005. One of the accidents did result in property damage, casualties and loss of life. Eight people were killed and ten people were injured in a fire at a sheet-rolling facility in November 2006. An investigation by regional authorities concluded that the heat of the fire damaged the load-bearing structures of the building leading to the collapse of the roof. The authorities have determined that the cause of the fire is unknown. The investigation into the fire found no violations of regulations with respect to the operation of the shop's pickling line. At the present time, a number of measures aimed at the elimination of the factors which led to the accident and the prevention of such incidents in the future have been introduced and are being implemented. Property losses are expected to be covered by insurance.

The MMK Group provides compensation to employees injured by industrial accidents or work-related illness in accordance with current Russian legislation by way of accident insurance and insurance payments from the Russian Social Insurance Fund. In addition, MMK, independently under the terms of the Collective Agreement with its employees, determines the amount of payment to be made to injured or deceased employees and their families as compensation and provides certain other types of social and economic aid to the injured employees and dependent relatives.

Litigation

No member of the MMK Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which MMK is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of MMK or the MMK Group.

Environment

Steel-making activities require large quantities of raw materials and energy and have, by their very nature, a significant impact on the environmental matters. Within the Russian Federation, where all of the MMK Group's operating activities and sites are located, the MMK Group is subject to Russian environmental legislation and regulation regarding the emission of pollutants in the atmosphere and water, the placement and disposal of waste products, the use and processing of environmentally hazardous materials as part of the normal operation of the facility, as well as following equipment failure and in emergency situations. See "Regulation of the Steel Industry in the Russian Federation".

The MMK Group is obliged to undertake certain environmental remediation activities to ensure site restoration of two inoperative iron ore open-cast mines in the Magnitogorsk region. In accordance with the permission granted by the Chelyabinsk Regional Department of the Federal Service for the Environmental, Technological and Nuclear monitoring of the Russian Federation, the MMK Group uses production waste (such as steel slag and construction waste) to fill these open-cast mines where this waste does not exceed a prescribed toxicity level. Amounts of waste which exceed the permitted level of toxicity are not significant and are transferred by the MMK Group to licensed specialist organisations for processing. The future costs associated with the restoration of the quarries are not expected by MMK to be significant. Actual costs included in the normal operating expenses of the MMK Group as they are incurred amounted to RUB 87 million (U.S.$3.30 million) for the year ended 31 December 2006, compared to RUB 60 million for the year ended 31 December 2005.

Under existing legislation, MMK believes that there are no material environmental penalties, sanctions, liabilities or contingencies that are not recorded within the MMK Group's audited financial statements, which could have a material adverse effect on the operating results or financial position of the MMK Group. The total of all payments made by the MMK Group during 2006 in relation to the adverse effect of the MMK Group's operations on the environment under existing regulation amounted to approximately RUB 64.3 million (U.S.$2.44 million). See "Regulation of the Steel Industry in the Russian Federation— Environmental Considerations".

The technical upgrading of the MMK Group's equipment and facilities as part of the modernisation and investment programme and subsequent investment programmes has resulted in the adoption of low-waste production processes. The MMK Group has also sought to implement modern environmental installations and to reconstruct its existing environmental protection facilities to comply with environmental regulation and standards. As at 31 December 2006, the MMK Group had 48 circulating water systems and water-treatment installations, 398 dust and gas purification installations and six complexes for slag processing and scrap metal extraction.

In 2006, the MMK Group performed 67 operations designed to reduce the effects of its operations on the environment to acceptable levels. The MMK Group's most significant environmental activities in 2006 include: construction of a gas-purifying system connected to the electric arc furnaces, construction of a circulating water system for the electric furnace shop and the upgrading and redevelopment of a part of the stations for desulphisation of contaminating substances emissions from sinter machines and the construction of an electric filter for stabilising sinter machines within sinter shop No. 3.

In the past three years, for the purpose of technical maintenance and operation of environmental facilities the MMK Group has spent RUB 2.6 billion (U.S.$100.27 million) (in 2006, RUB 902.1 million (U.S.$34.26 million)). Capital expenditure for construction and reconstruction of environmental facilities in the last three years amounted to approximately RUB 3.25 billion (in 2006, RUB 1.4 billion (U.S.$53 million)).

The MMK Group's environmental department, which reports directly to the Chief Engineer, is responsible for monitoring and controlling the MMK Group's compliance with environmental regulation. The MMK Group's ecological monitoring conforms to the environmental standards of the Russian Federation. As a result of the environmental activities of the MMK Group and its investment programmes, from 1992 to 2006:

- the gross volume of emissions of pollutants into the air has decreased by 2 times;
- the specific volume of emissions of pollutants into the air per metric ton of steel produced has decreased by 2 times;
- the gross volume of emissions of pollutants into the water basin has decreased by 1.7 times;
- the specific volume of emissions of pollutants into the water basin per metric ton of steel produced has decreased by 3.4 times; and
- consumption of industrial water has decreased by 4.3 million cubic metres.

In 2004, the MMK Group put into operation a system of ecological management certified by the international body of certification of TÜV CERT management systems Germany. In 2006, the MMK Group obtained a new certificate from TÜV CERT, due to the transition to a new version of ISO 14001-2004. The MMK Group was also recognised for its environmental standards in April 2005 as evidenced by the Diploma for the second rank at the All-Russia Contest "Russian Organisation of High Social Efficiency" in the nomination of "Environmental Activities and Resource Saving" arranged by G.O. Gref, the Minister of Economic Development and Trade of the Russian Federation.

MMK believes that the MMK Group conducts its activities in compliance with the applicable legislative requirements in, and environmental regulation of, the Russian Federation.

Since 1998, the MMK Group has incurred one fine related to environmental activity in a total amount of RUB 85,000.

Environmental regulations are currently under consideration in the Russian Federation. The MMK Group continues to evaluate its operations and obligations relating to any and all expected new requirements of environmental legislation.

Insurance

The MMK Group maintains risk insurance against loss and damage to all of its properties and equipment through various insurance companies, including principally OJSC "SKM" ("SKM"), a related party of MMK, in amounts that are consistent with customary industry practices both in the Russian Federation and internationally. SKM reinsures substantially all of its obligations in this respect with major Russian and foreign reinsurance companies (save for those which under Russian law cannot be reinsured). In particular, the MMK Group maintains insurance of its main property, plant and equipment, construction in progress and operating current assets as described in the table below. The MMK Group also insures against certain other risks including risks of civil liability. The MMK Group's property, plant and equipment is insured in accordance with its actual and replacement cost as determined by American Appraisal (ARR) Inc. and other licensed appraisers. See "Risk Factors—The MMK Group's existing and future insurance coverage may not be sufficient".

For the year ended 31 December 2006, the total cost of maintaining mandatory insurance pursuant to applicable Russian legislation constituted 5 per cent. of the total amount spent by the MMK Group on insurance and non-compulsory insurance maintained by the MMK Group constituted the remaining 95 per cent., including 54 per cent. for property insurance and 41 per cent. for personal insurance (accident insurance, voluntary medical insurance).

The following table sets out the categories of mandatory insurance and voluntary insurance maintained by MMK:

Mandatory insurance	Voluntary insurance
Accident insurance of gas-rescuers	Accident insurance for employees
Accident insurance of Special Department employees such as security guards	Additional non-state pension insurance for employees
Civil liability insurance for companies which operate hazardous materials	Medical insurance
Insurance of civil liability of vehicle owners	Property insurance (fire and associated risks, machinery, mechanisms and equipment breakages and theft and robbery)
	Vehicle insurance (carjacking, accident and fire)
Civil liability insurance for companies that operate facilities consuming atomic energy	Constructing-and-mounting risks insurance
	Insurance of employees going on business trips outside their permanent residence
Civil liability insurance for companies in case of damage resulting from waterworks breakdown	Liability insurance for directors and officers

All of the MMK Group's production assets and stock are insured to the extent set out above, with the exception of "social assets" providing recreational facilities for employees such as the aqua parks and ski-centre. The MMK Group does not insure against loss of profits due to disruptions of production.

The insurance premiums payable under the MMK Group's insurance contracts meet the applicable Russian statutory requirements and rules set out by insurance companies.

Social Projects and Commitments in Magnitogorsk

MMK funds or contributes to a number of social and community projects, spending RUB 706.57 million in 2005 and RUB 1,156.7 million (U.S.$43.9 million) in 2006. MMK plans to spend a further approximately RUB 1,400 million (including RUB 1,174.9 million of MMK's net profits) in 2007 on social and community projects.

MMK, in co-operation with the administration of the city of Magnitogorsk, finances Autonomous Non-Profit Organisation Health Care and Sanitary Department of Magnitogorsk city administration and JSC MMK, spending approximately RUB 173.2 million annually.

In 2006, more than 11,000 employees and their family members accessed health resorts or holiday centres on preferential terms at MMK-sponsored facilities.

MMK maintains a comprehensive programme of leisure activities and recreation for its employees. Major projects include mountain ski centres "Abzakovo" and Metallurg-Magnitogorsk, water-sports centre Miracle Waterfall and rest centres "Yubileyniy", "Metallurg" and "Yuzhniy". MMK also arranges more than 500 mass sporting events for the participation of its employees and their families annually. It also finances two cultural centres which provide facilities for a number of amateur talent groups composed of employees and their family members.

MMK assists its employees with meeting their housing needs by way of the "Klyuch" Housing and Investment Fund programme. This provides mortgage credit to MMK employees with a maturity of up to 27 years, allowing employees to purchase their own homes. In 2006, 113 employees of MMK made use of the programme.

MMK supports old-age pensioners and veterans through its charitable foundation "Metallurg", financed from net profit. "Metallurg" is involved in a number of charity projects, including the monthly payment of pensions to 23,000 pensioners and veterans of MMK. In 2006, MMK spent RUB 111 million (U.S.$4.22 million) to finance charity projects through "Metallurg" and "Metallurg" plans to spend a further RUB 157.23 million in 2007.

Employees

For the year ended 31 December 2006, the MMK Group had an average of 55,572 employees. The following table sets out the MMK Group's average number of employees for the years ended 31 December 2004, 2005 and 2004:

	Employees (average)	
Year	MMK Group	MMK
2004	59,563	31,868
2005	57,815	28,601
2006	55,572	26,396

To date, neither MMK nor any MMK Group company has experienced any strikes, labour disputes, work stoppages or actions that have materially affected the operation of their business and MMK considers the MMK Group's relationship with employees and the trade union to be good.

As of 31 December 2006, 98 per cent. of MMK's employees belonged to one trade union (the Mining and Metallurgic Union of Russia). The activities of the trade union include the conclusion of the collective bargaining agreement of MMK (the core contract between MMK as the employee and the trade union, regulating social and labour relations within MMK, including negotiation of wages, concluded every year) and the conclusion of the tariff agreement. The main documents regulating such relations are the collective bargaining agreement of MMK entered into for the period of 2006 to 2008 and the industrial collective (tariff) agreement entered into for a period of 2006 to 2008 between the association of employers — the Association of Mining and Metallurgic Manufacturers of Russia and the Mining and Metallurgic Union of Russia.

The average monthly wage of MMK's employees (based on data for the 12 months ended 31 December 2004) was RUB 13,484, (based on data for the 12 months ended 31 December 2005) was RUB 16,253 and (based on data for the 12 months ended 31 December 2006) was RUB 19,852 (U.S.$754). The MMK Group also plans to increase wages subject to any change in the rate of inflation and subject to a rise in labour productivity.

Whilst the MMK Group does not maintain or intend to create any employee share ownership plans, the MMK Group's employees are entitled to benefits, the amount of which depends on their monthly productivity, quality of performance, cost-savings and other economic indicators.

Pensions

Defined contribution obligations

Non-state pension fund "Social Protection of Senior Citizens"

The MMK Group makes monthly pension contributions to a non-state pension fund "Social Protection of Senior Citizens" where individual pension accounts are opened for employees.

The MMK Group has the ability to exercise influence over the financial and operating policy decisions of the fund through positions that certain managers of the MMK Group hold on the Board of Directors of the fund.

The monthly pension contribution amount of the MMK Group is equal to the employee's monthly contribution, unless the employee is a male aged between 55 and 60, or a female aged between 50 and 55, in which case the contribution amount of the MMK Group will be 1.5 times the employee's contribution. The pension contributions by the MMK Group for any one employee in 2006 may not exceed RUB 6,000 per year per employee. In 2006, pension contributions (relating to staff costs) by the MMK Group to the non-state fund were U.S.$5.5 million.

Russian Federation State Pension Fund

The MMK Group pays into the Russian Federation Pension Fund a percentage of each employee's tax base based on a scale established by the Russian Tax Code. In 2006, payments made to the Russian Federation State Pension Fund totalled U.S.$59 million. These amounts are expensed when incurred and are recorded in the account as taxes related to personnel expenses.

Defined benefit obligations

The MMK Group also has certain obligations to pay supplementary pensions to former employees who retired prior to 1 April 2001. In 2006, the amount of such payments was U.S.$3 million, RUB 389 on average per retiree per month (U.S.$14 per retiree every month).

Other Businesses

In addition, the MMK Group includes a number of other businesses, including the clearance of cargo through customs (OOO TEK MMK) and hotel and sport and health services (OOO Interlux, OOO Ski Centre Metallurg-Magnitogorsk, OOO Abzakovo and OOO Akvapark), none of which, individually or in the aggregate, materially affect the MMK Group's consolidated financial condition or results of operations. The MMK Group currently has no plans to expand significantly any of its non-core businesses.

MMK's 100 per cent. owned subsidiary, OOO Investment Company RFC, owns shares of certain companies that provide services on the Russian stock markets (principally OOO MECOM and OOO Region). These companies together form investment-financial group RFC, which provides a full set of stock market services, including asset management; corporate finance services; underwriting; leasing; brokerage services; depositary services; professional appraisal; and analytical and information support.

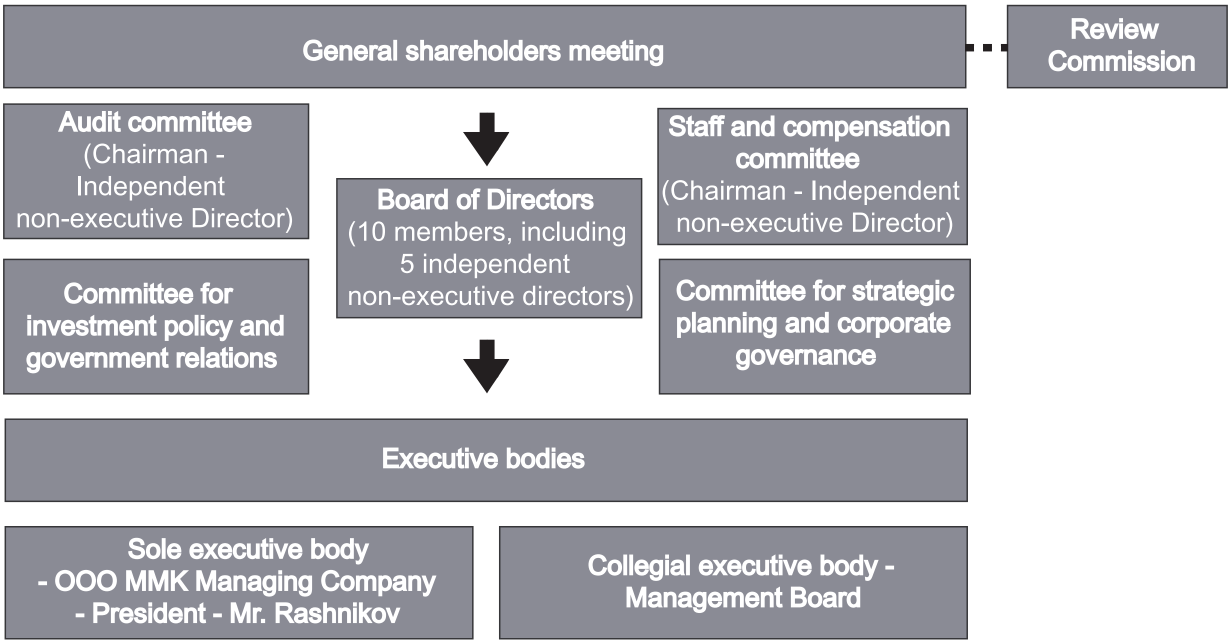
MANAGEMENT AND CORPORATE GOVERNANCE

Management Structure

In accordance with the Federal Law on Joint Stock Companies, the Civil Code of the Russian Federation and MMK's charter, the management bodies of MMK are the General Shareholders' Meeting, the Board of Directors, executive bodies comprising the collegial executive body–the Management Board and the general director of MMK (the authority of which is currently exercised by OOO MMK Managing Company). The highest governing body is the General Shareholders' Meeting. The Board of Directors carries out the general management of MMK's business. The general director is responsible for the day-to-day management of MMK.

MMK's Organisational Structure

MMK manages its operations in compliance with applicable corporate governance requirements in Russia. MMK's key decision-making bodies are organised under the following structure:



General Shareholders' Meeting

The General Shareholders' Meeting is MMK's highest governing body. Decisions of the General Shareholders' Meeting are taken by shareholders participating in the meeting of shareholders. The powers of MMK's shareholders, acting through the General Shareholders' Meeting, are derived from, and their scope is limited to, the powers set out in the Federal Law on Joint Stock Companies and MMK's charter.

Voting at a General Shareholders' Meeting is generally based on the principle of one vote per Ordinary Share, with the exception of the election of the Board of Directors, which must be done through cumulative voting. Ordinarily, a decision at a General Shareholders' Meeting is taken by a majority vote of holders of voting shares participating in a shareholders' meeting. However, a three-quarters majority of the voting shares present at a General Shareholders' Meeting is required to approve certain decisions.

Issues for which a majority vote is required include:

- the determination of the number of members of the Board of Directors, the election of its members and early termination of their powers;
- setting the amount of remuneration and compensation payable to members of the Board of Directors;
- the election of members of the Review Commission and early termination of their powers;
- the approval of MMK's Auditor;
- the increase of MMK's charter capital by way of an increase in the nominal value of MMK's Ordinary Shares;

- the reduction of MMK's charter capital by way of a reduction of the nominal value of MMK's Ordinary Shares, by way of repurchase of part of the Ordinary Shares for the purpose of decreasing their total number and by way of cancellation of the acquired or repurchased Ordinary Shares;
- the approval of MMK's annual reports and annual financial statements, including income statements (accounts of profit and loss) and distribution of profits (including payment (announcement) of dividends) and losses based on the results of a financial year;
- the determination of the procedures for holding General Shareholders' Meetings;
- splitting up and consolidation of MMK's Ordinary Shares;
- decisions on the approval of interested party transactions and major transactions in cases provided for by the Federal Law on Joint Stock Companies;
- decisions on the approval of MMK's participation in financial and industrial groups, associations and other unions of commercial organisations;
- the approval of internal documents regulating the activities of MMK's bodies; and
- other issues as provided by the Federal Law on Joint Stock Companies.

Issues for which a three-quarters majority vote is required include:

- amendments to MMK's charter and approval of a new version of the charter, unless otherwise provided by the Federal Law on Joint Stock Companies;
- the reorganisation of MMK;
- the liquidation of MMK, appointment of the liquidation commission and approval of the interim and final liquidation balance sheets;
- the determination of the number, nominal value and category (type) of authorised shares, and the rights attached to those shares;
- the approval of major transactions in cases provided for by the Federal Law on Joint Stock Companies;
- reduction in the nominal value of shares;
- the acquisition by MMK of placed shares in cases provided for by the Federal Law on Joint Stock Companies;
- the increase of MMK's share capital by placement of additional Ordinary Shares up to the number of authorised shares or securities convertible into such shares by means of a closed subscription; and
- the increase of MMK's share capital by placement of Ordinary Shares or securities convertible into such shares by means of an open subscription representing over 25 per cent. of the total number of Ordinary Shares placed previously.

A General Shareholders' Meeting is valid (has a quorum) if shareholders holding in aggregate more than half of the votes of MMK's placed voting shares have taken part in the meeting in person or by proxy. If by the time of the meeting there will be no quorum for any items of the meeting's agenda, the general meeting shall be adjourned for a maximum of two hours. The quorum at any rescheduled meeting is shareholders holding in aggregate more than 30 per cent. of the votes of MMK's placed voting shares.

The annual General Shareholders' Meeting should be held not earlier than two months and not later than six months after the financial year-end. The annual shareholders' meeting deals with the following matters:

- the election of the Board of Directors;
- the approval of MMK's annual reports and annual financial statements, including income statements (accounts of profit and loss) and distribution of profits (including payment (announcement) of dividends) and losses based on the results, on the basis of Russian GAAP, of a financial year;
- the approval of the Auditor; and
- the election of the Review Commission.

A shareholder(s) owning in aggregate at least 2 per cent. of the voting shares may include items in the agenda of the annual General Shareholders' Meeting and nominate candidates to the Board of Directors, the Review Commission and the candidate for the position of the sole executive body. Such proposals must be submitted to MMK no later than 40 days after the end of the financial year.

Extraordinary General Shareholders' Meetings are held by decision of the Board of Directors on its own motion or at the request of the Review Commission, the Auditor or any shareholder(s) owning in aggregate at least 10 per cent. of the voting shares at the date of the request.

A resolution of the General Shareholders' Meeting may be passed without the meeting being held (without the presence of shareholders to discuss the agenda and pass resolutions on the matters proposed to vote) by absentee ballot. A General Shareholders' Meeting, the agenda of which includes election of the Board of Directors and the Review Commission, the approval of the Auditor, the approval of annual reports, annual financial statements, including the profit and loss report (profit and loss statement) and profit and loss distribution (including dividend announcement) based on the results of the financial year, cannot be held by absentee ballot.

Voting on the agenda of the General Shareholders' Meeting held by absentee ballot shall be conducted only by the ballots executed pursuant to the provisions of the Federal Law on Joint Stock Companies. The voting ballot shall be sent to a person specified in the list of persons authorised to participate in the General Shareholders' Meeting not later than 30 days prior to the date of the General Shareholders' Meeting.

Notice and Participation

Shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether or not it is to be held in person or by absentee ballot, not later than 30 days (70 days in the case of the election of members of the Board of Directors and certain reorganisations) prior to the date of the meeting and such notice must include the agenda of the meeting. Only the matters specified in the official notice to the shareholders may be discussed at a General Shareholders' Meeting. Pursuant to MMK's Charter, notices to shareholders may be sent by registered mail and MMK shall also publish the notice in the newspapers *Magnitogorskiy Rabochiy* and *Magnitogorskiy Metall*.

MMK may additionally notify the shareholders of a General Shareholders' Meeting through other mass media (television, radio) and on its internet page www.mmk.ru.

The list of persons entitled to participate in a General Shareholders' Meeting is required to be compiled on the basis of the data in MMK's register of shareholders on the date specified by the Board of Directors. The compilation date of the list of such persons may not be set earlier than the date of adoption of the resolution to hold the General Shareholders' Meeting and may not be more than 50 days before the date of the meeting or, in the case of an extraordinary General Shareholders' Meeting to elect the Board of Directors, 65 days before the date of the General Shareholders' Meeting.

The right to participate in a General Shareholders' Meeting may be exercised by a shareholder either personally or by proxy (including via absentee ballot or other assignment of voting rights).

Board of Directors

Pursuant to the Federal Law on Joint Stock Companies and MMK's charter, the Board of Directors is responsible for the general management of MMK and its operations, except with respect to matters reserved to the exclusive competence of the General Shareholders' Meeting, and also exercises control over MMK's executive bodies, execution of resolutions of the General Shareholders' Meeting or the Board of Directors.

Pursuant to MMK's current charter, the Board of Directors consists of ten members. Members of the Board of Directors are elected at the General Shareholders' Meeting for the period until the next annual shareholders' meeting. If the annual shareholders' meeting does not take place in time provided by the Federal Law on Joint Stock Companies, the Board of Directors' powers shall terminate save for the powers on preparation, convening and holding of the annual shareholders' meeting. Only an individual may be a member of the Board of Directors. Members of the Board of Directors are not required to be shareholders of MMK. The resolution of the General Shareholders' Meeting may early terminate the powers of the Board of Directors. The members of the Board of Directors are elected through cumulative vote. Under cumulative voting, the number of votes of each shareholder is multiplied by the number of persons to be elected to the Board of Directors and a shareholder may give all votes for one candidate or spread them between two or more candidates. The candidates who get the maximum number of votes are deemed to be elected to the Board of Directors.

Persons elected to the Board of Directors may be re-elected an unlimited number of times.

Matters that fall within the competence of the General Shareholders' Meeting may not be delegated to the Board of Directors, except for matters provided by the Federal Law on Joint Stock Companies. In accordance with the Federal Law on Joint Stock Companies and MMK's charter, the Board of Directors' competence includes, *inter alia*, the following matters:

- determination of MMK's business priorities;
- convening annual and extraordinary General Shareholders' Meetings, other than in certain cases provided by the Federal Law on Joint Stock Companies;
- approval of the agendas of General Shareholders' Meetings, determination of other matters falling within the competence of the Board of Directors under the Federal Law on Joint Stock Companies and connected to the preparation for, and the holding of, General Shareholders' Meetings;
- increase of the charter capital of MMK by placement of additional Ordinary Shares within the number and category of the authorised shares by way of an open subscription of not more than 25 per cent. of the previously placed Ordinary Shares of MMK;
- resolving to place bonds and other securities in accordance with applicable law;
- formation of the Management Board of MMK as a collegial executive body and early termination of the powers thereof;
- determination of the provisions of the contracts with the General Director of MMK, members of the Management Board of MMK and the managing company;
- approval of a resolution on the suspension of the powers of the General Director of MMK, the managing company and on the establishment of a temporary individual executive body of MMK;
- recommendation to the General Shareholders' Meeting in respect of the fees, remunerations and compensations payable to the members of the Board of Directors of MMK, the Review Commission and the independent auditor;
- recommendations to a general meeting of shareholders on profit distribution, including the amount of dividends to be paid on shares and the procedure for the payment thereof, and distribution of MMK's losses based on the results of a financial year;
- establishment and liquidation of branches and representative offices of MMK;
- approval of major transactions and interested party transactions in accordance with the Federal Law on Joint Stock Companies;
- approval of the appointment of MMK's registrar and the terms of, as well as the termination of, the registrar's appointment;
- proposal of MMK's charter capital increase by way of increased price per share and proposal of the splitting and consolidation of MMK's shares to the General Shareholders' Meeting;
- proposal of the approval of major transactions and interested party transactions in the cases provided by the Federal Law on Joint Stock Companies to the General Shareholders' Meeting;
- proposal of transfer of MMK's individual executive body's powers to the managing company to the General Shareholders' Meeting;
- preliminary approval of the annual report of MMK;
- participation in other companies;
- approval of financial and business plan of MMK for the next financial year, amendments and follow-up thereto, MMK's finances and business internal control procedures;
- approval of the decision on issuance of securities and report on the results of the issuance of securities;
- approval of the decision on establishment of permanent and temporary committees of the Board of Directors, approval of the chairmen of the committees of the Board of Directors and control over the activities of the committees of the Board of Directors; and
- other matters provided in the Federal Law on Joint Stock Companies and MMK's charter.

A meeting of MMK's Board of Directors has a quorum if at least half of its elected members are present. Decisions on certain matters falling within the Board of Directors' competence (such as an increase in the charter capital, decisions on placement of bonds and approvals of major transactions) must be approved by MMK's Board of Directors unanimously. In the case of a tied vote, the Chairman of the Board of Directors has a casting vote.

As at 31 March 2007, the active membership of the Board of Directors (the business address is 93 Kirova Street, Magnitogorsk, Chelyabinsk region, 455000, Russian Federation, and the telephone of which is +7 3519 24-30-04) is as follows:

Name	Year of birth	Current position	Since
Victor F. Rashnikov	1948	Chairman of the Board of Directors of MMK and President of OOO MMK Managing Company.	April 2005/ March 2006
Andrey A. Morozov	1952	Deputy Chairman of the Board of Directors of MMK and Vice-President for Corporate Matters of OOO MMK Managing Company	April 2005/ May 2006
Andrey M. Gorodissky	1956	Member of the Board of Directors of MMK, Independent Director	April 2005
Sergey V. Krivoshchekov	1961	Member of the Board of Directors of MMK and Vice-President for Property Administration of OOO MMK Managing Company	May 2002/ May 2006
Kirill Y. Levin	1968	Member of the Board of Directors of MMK, Independent Director	April 2006
Zumrud K. Rustamova	1970	Member of the Board of Directors of MMK, Independent Director	April 2006
Gennady S. Senichev	1951	Member of the Board of Directors of MMK and Vice-President for Operations of OOO MMK Managing Company and Executive Director of MMK	May 2000
Rafkat S. Takhautdinov	1958	Member of the Board of Directors of MMK and Vice-President for Strategic Development of OOO MMK Managing Company	May 2005/ May 2006
Sir David Logan	1943	Member of the Board of Directors of MMK, Independent Director	March 2007
Peter Charow	1954	Member of the Board of Directors of MMK, Independent Director	March 2007

There are no current or potential conflicts between the private interests and duties of the members of the Board of Directors, the members of the Management Board or the general director and the duties of those officers to MMK.

The below table sets out each member of the Board of Directors' outside interests and personal history.

Victor F. Rashnikov	Mr Rashnikov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1974 with a diploma in metallurgy. He has worked at MMK since 1967 initially as a fitter in MMK's equipment repair shop, then as an operator, foreman, shift and workshop head and deputy chief engineer-head of the production and delivery department. Following this, Mr Rashnikov served as the Chief Engineer and, since 1991, as Chief Engineer-First Deputy General Director. In 1997, Mr Rashnikov was appointed General Director. Since April 2005 he has been the Chairman of the Board of Directors and since 2006 the President of OOO MMK Managing Company.

Mr Rashnikov's outside activities include the following:

- CJSC Kazankovskaya Coal Company (Chairman of the Board of Directors);
- Autonomous Non-profit Organisation "Medical Care Unit of the City Administration of Magnitogorsk and OJSC MMK"—(Member of the Management Board);
- Aktsioner Charity Fund (Chairman of the Management Board);
- Union of Industrialists and Entrepreneurs of Chelyabinsk region (Chairman);
- Peter the Great International Club of Best Managers (President);
- ANO Metallurg-Magnitogorsk Ice Hockey Club (President); and
- International Iron and Steel Institute (Member of the Board of Directors).

Andrey A. Morozov

Mr Morozov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1974 with a degree in metallurgy and in the same year he started work at MMK as head of the shipment preparation section. He has occupied various positions, including shift head, deputy workshop head, workshop head, chief rolling specialist and director of MMK's trading house. In 1997 and 1998, Mr Morozov was first deputy general director for finance, economy, real estate and securities. Since 1998, Mr Morozov has been First Deputy General Director. In April 2005, he was appointed Deputy Chairman of the Board of Directors and since 2006 has been Vice-President for Corporate Matters of OOO MMK Managing Company.

Mr Morozov's outside activities include the following:

- CJSC Kazankovskaya Coal Company (Member of the Board of Directors); and
- Autonomous Non-profit Organisation "Medical Care Unit of the City Administration of Magnitogorsk and OJSC MMK"—(Member of the Management Board).

Andrey M. Gorodissky

Mr Gorodissky graduated from the Moscow State Institute of International Relations in 1978, specialising in international law. From 1984 to 1988, Mr Gorodissky was senior legal adviser to the Bureau of Soviet Foreign Trade Associations in Western sectors of Berlin. From 1988 to 1992, he worked as chief legal expert in the Main Contracts Administration of the Ministry of Foreign Economic Relations. Between 1992 and 1994, he was deputy general director of "Business and Law". Since 1994, Mr Gorodissky has headed TOO "Business and Law" Law Firm (since May 2002, called "Andrey Gorodissky and Partners" Law Firm). Since 2003, he has been Managing Partner of "Andrey Gorodissky and Partners" Law Firm.

Sergey V. Krivoshchekov

Mr Krivoshchekov graduated from the Magnitogorsk Institute of Mining and Metallurgy in 1983, specialising in metallurgy. In the same year he joined MMK, holding various positions including operator, shift manager, deputy workshop head, head of financial department and deputy director for finance and economics. Between 1998 and 2000, he was director for real estate and securities. Since 2002, he has been Deputy General Director for Strategic Planning and Property. In April 2005 he was appointed counsel to the general director on strategic planning and integration policy.

Since July 2005, Mr Krivoshchekov has held the position of Deputy General Director for Strategic Planning and Property, and since May 2006, has served as Vice President for Property Management of OOO MMK Managing Company.

Mr Krivoshchekov's outside activities include the following:

- Company "MMK Holdings (Asia) LTD" (Member of the Board of Directors).

Kirill Y. Levin

Mr Levin graduated from the Moscow Aircraft Institute in 1990, and worked there as a research officer until 1992. Since 1993, he was a senior economist in the financial resources department of the Russian National Commercial Bank, where, since 1996, he has headed the Client department. In 1997, Mr Levin joined CJSC Gazprombank as assistant to the Chairman of the Board. From July 1997 until May 2000, he headed the customer relations department. In 2000, he became a Deputy Chairman of the Management Board–head of the customer relations and financing department. From March 2002, he has served as Deputy Chairman of the Management Board of CJSC Gazprombank.

Mr Levin's outside activities have also included the following:

- OOO "Gazcardservis" (Chairman of the Board of Directors);
- OOO "Novie Finansovie Technologii" (Member of the Board of Directors);
- OOO "Gazprombank Leasing" (Member of the Board of Directors);
- Russian-Belorussian LLC "Belgazprombank" (Member of the Board of Directors);
- "VIZA" association (Non-commercial organisation) (Special Director on the Board of Directors); and
- OJSC "Salavatnefteorgsintez" (Member of the Board of Directors).

Zumrud K. Rustamova

Mrs Rustamova graduated from the Moscow Economics and Statistics Institute in 1992. From 1995 to 1999, she worked in the Russian Federation State Committee for Government-Owned Property Administration. From 1999 to 2000, she was Deputy Chairman of the Russian Federal Property Fund. From 2000 to 2004, Mrs Rustamova was Deputy Minister for Property Relations of the Russian Federation and from July 2004 to 2006 was Vice-President of Siberian Coal Energy Company. In 2006, she became a Deputy Chairman of the Management Board of OJSC "Russian Development Bank". Currently, she is a deputy General Director, head of the Representative office in Moscow of OJSC 'Polymetall'.

Mrs Rustamova does not currently have any other responsibilities in respect of companies outside MMK.

Gennady S. Senichev	Mr Senichev graduated from Magnitogorsk Institute of Mining and Metallurgy in 1977, specialising in metallurgy. Mr Senichev started work at MMK in 1970 and has since occupied positions including mill manager, workshop head, head of production, Deputy General Director for Financial and Economic Issues and Deputy General Director for Capital Construction. From 2002 to 2005, Mr Senichev was Deputy General Director for Finance and Economics. From April 2005 to 2006, Mr Senichev was General Director of MMK. Since May 2006, he has been Vice-President of OOO MMK Managing Company and Executive Director of MMK. Since January 2007, Mr Senichev has served as Vice President of OOO MMK Managing Company for Operations—Executive Director of MMK. Mr Senichev does not currently have any responsibilities to companies outside MMK.
Rafkat S. Takhautdinov	Mr Takhautdinov graduated from the Magnitogorsk Institute of Mining and Metallurgy in 1986, specialising in metallurgy. Mr Takhautdinov started his career in 1980 as an assistant steel maker. He then worked as a steel maker, senior foreman in charge of production, deputy shop head, workshop head, chief engineer and director for production. In 2002, Mr Takhautdinov was appointed Deputy General Director for Production and Construction of MMK. From April 2005 to May 2006, he held office of First Deputy General Director of MMK. Since May 2006, he has been Vice-President for Strategic Development of OOO MMK Managing Company. Mr Takhautdinov's outside activities include the following: • OJSC MMK-Metiz (Chairman of the Board of Directors); and • Joint Stock Company Schelkovky plant "Spezmontazhizdelie" (Chairman of the Board of Directors).
Sir David Logan	Sir David Logan graduated from Charterhouse and University College, Oxford. Mr Logan started his career in the British Foreign Service in 1965 where he served in Turkey, Norway and the UK Mission at the United Nations. From 1979 to1982 he was a deputy head of the Defence Department of the Foreign and Commonwealth Office and from 1988 to 1989 he was senior associate member of St. Anthony's College, Oxford. After that Mr Logan was Minister and Deputy Head of the UK Mission in Moscow (1989-1992), Assistant Under Secretary of State for Central and Eastern European (1992-1994) and Assistant Under Secretary for Defence Policy (1994-1995). In 1995, Mr Logan was appointed Minister in the UK Embassy in Washington and, from 1997 to 2001, he was UK Ambassador to Turkey. Since 2002, Mr Logan has been Director of the Centre for Studies in Security and Diplomacy at the University of Birmingham (ending on 8 April 2007) and an Honorary Professor at the School of Social Sciences at the University of Birmingham.

Mr Logan's outside activities include the following:

- Non-executive director of European Nickel plc.; and
- Member of the Supervisory Board of Efes Breweries International.

Mr Logan also serves on the International Advisory Council of Thames Water.

Peter Charow

Mr Charow graduated from Swarthmore College, Pennsylvania, USA in 1977 with a Bachelor of Arts degree in political science. In 1981, he obtained a Master of Arts in political science and, in 1986, a Master of Philosophy in political science from Columbia University, New York, USA. In 2006, he has also obtained an Executive MBA degree from the Tuck School of Business, Dartmouth College, New Hampshire, USA. Mr Charow started his academic career in the mid-1980s as an executive director at Harriman's Institute for Perspective Soviet Research at Columbia University. From the end of the 1980s to the start of the 1990s, Mr Charow held various positions in the sphere of commerce and consulting in New York, specializing in development of the Russian market. After his transfer to Moscow in 1992, Mr Charow for several years worked as a representative of a New York company selling raw materials. From 1994 to1997, Mr Charow was a founder and the first President of the American Chamber of Commerce and Industry in Russia. In 1997, Mr Charow started working at Amoco and was a vice president in the commercial development department of the Moscow office. During the merger of BP and Amoco, Mr Charow acted as a group manager for development of the Priobskoe deposit and after that held the position of head of the Russian representative office of BP's oil exploration department. From 2002 till 2005, he was President of BP Russia. In September 2005, he started working at BP headquarters in London as a Regional Director for Implementation of Projects in Russia, the CIS and Turkey. At present, Mr Charow deals with strategic planning, business development and management of BP's non-commercial risks in Russia and countries of the Caspian region.

In the previous five years, no member of the Board of Directors has been convicted of any fraudulent offence; has served as a director, partner, founder or senior manager of any organisation that has suffered any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies; or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

Management Board

The Management Board is the collective executive body of MMK which, together with the General Director described below, manages the business of MMK. The Management Board is appointed by the Board of Directors. The powers of the members of the Management Board terminate immediately upon the Board of Directors approving a new Management Board.

The members of the Management Board may be re-elected an unlimited number of times. The total number of members and the membership of the Management Board are approved by the Board of Directors at the proposal of the General Director, who allocates duties and responsibilities between the members of the Management Board.

The following is within the competence of the Management Board:

- decisions relating to the short-term strategy of MMK;
- decisions relating to the execution of any transactions related to the acquisition, disposal or potential disposal by MMK, directly or indirectly, of property with a value exceeding 2.5 per cent. of the balance sheet value of MMK's assets according to its financial statements prepared on the basis of Russian GAAP as of the latest accounting date, not falling within the competence of the General Shareholders' Meeting and the Board of Directors;
- implementing resolutions of the General Shareholders' Meeting and the Board of Directors;
- examination of questions proposed to the meetings of the Board of Directors;
- analysis of the technical, economic and financial results of MMK, development thereof for the planned period, preparation of financial and business plan (budget) of MMK for the next financial year and providing them for the approval of the Board of Directors; and
- approval of proposals on the termination of business (activities) on product manufacture, product sale, execution of works and the provision of services.

Resolutions are adopted by majority vote of the members of the Management Board present at a meeting thereof.

Meetings of the Management Board are arranged by the person acting as the individual executive body of MMK (the General Director), who signs on behalf of MMK all documents and minutes of meetings of the Management Board and acts without a power of attorney on behalf of MMK in accordance with decisions of the Management Board adopted within its competence.

The rights and obligations of the members of the Management Board in respect of managing the business of MMK are defined by the law, other regulatory acts of the Russian Federation and the agreement executed between each member of the Management Board and MMK. The Chairman of the Board of Directors or a person authorised by the Board of Directors may sign such agreement on behalf of MMK.

Meetings of the Management Board are held not less than once a week.

As at 31 March 2007, the active membership of the Management Board (the business address: 93 Kirova Street, Magnitogorsk, Chelyabinsk region, 455000, Russian Federation, and the telephone of which is +7 3519 24-30-04) consisted of the following members:

Name	Year of birth	Current position/biography and outside memberships	Since
Gennady S. Senichev	1951	Member of the Board of Directors. See biography above.	2005
Rafkat S. Takhautdinov	1958	Member of the Board of Directors. See biography above.	2005

Name	Year of birth	Current position/biography and outside memberships	Since
Valentin V. Antonyuk	1950	Director for Capital Construction and Investments In 1973, Mr Antonyuk graduated from Magnitogorsk Institute of Mining and Metallurgy. In 1979, he started to work in the ore dressing plant of MMK. He held various positions including mining foreman, head of production department and chief engineer of the ore dressing plant. In 1998 and 1999, he was the head of sintering and blast furnace division. From 1999 to 2001, Mr Antonyuk was head of production at the ore dressing plant. From 2001 to 2003, he was Director for Construction and from 2003 he was Director for Construction and Overhaul Repairs. Since 2006, Mr Antonyuk has been the Director for Capital Construction and Investments of MMK. Mr Antonyuk's outside activities include the following: • CJSC "Metallurgteis" (member of the Board of Directors); • OJSC "Vladivostok Sea Trade Port" (member of the Supervisory Council); • OJSC "Lisk Sea Port" (member of the Board of Directors); and • CJSC Kazankovskaya Coal Company (member of the Board of Directors).	2001
Vladimir I. Andriyanov	1956	Deputy Executive Director for Transportation- Head of Railway Transport Administration In 1984, Mr Andriyanov graduated from Magnitogorsk Institute of Mining and Metallurgy. He has been working for MMK since 1977. He has held various positions including electrician, senior electrical fitter and head of the electrical service. Between 1995 and 2000, he was the head of MMK's railway transport administration. From 2000 to 2006, he was Director for Railway Transportation-Head of Railway Transport Administration. Since 2006, Mr Andriyanov has held the position of Deputy Executive Director for Transportation-Head of Railway Transport Administration. Mr Andriyanov's outside activities include: • CJSC Metallurgtrans (Member of the Board of Directors); • OJSC Vladivostok Sea Trade Port (Member of the Supervisory Council); • OJSC Eisk Sea Port (Member of the Board of Directors).	2001

Name	Year of birth	Current position/biography and outside memberships	Since
Vladimir Z. Bliznyuk	1938	Chairman of the Trade Union Committee Mr Bliznyuk graduated from the Magnitogorsk Institute of Mining and Metallurgy. He has been working for MMK since 1958. He has occupied various positions including gas plant operator, section foreman, section manager and head of service. Between 1979 and 1981, he was chairman of the trade union committee of the railway transport division. From 1981 to 1992, Mr Bliznyuk was deputy chairman of the trade union committee of MMK. Since 1992, he has been the chairman of the trade union committee.	1998
Yuri A. Bodiaev	1961	Senior Engineer Mr Bodiaev graduated from Magnitogorsk Institute of Mining and Metallurgy in 1983. He started his career at MMK in 1983 as assistant steelmaker and subsequently held various positions including production foreman, chief steelmaker, chief metallurgist and deputy chief engineer. Since 2003, Mr Bodiaev has served as Technical Director-Chief Engineer, Mr Bodiaev was appointed as Technical Director in 2005 and has been Chief Engineer since 2006.	2003
Mikhail V. Buryakov	1959	Director for Integration Policy Mr Buryakov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1981. After graduation, Mr Buryakov joined MMK as an economist. He held various positions, including head of the planning and economic department, deputy director of Trading House of MMK and director of finance and economics. From 2000 to 2005, Mr Buryakov was the head of the department of strategic planning and since April 2005, he has been Director for Integration Policy. Mr Buryakov's outside activities include the following: • OJSC MMK-Metiz (Member of the Board of Directors); and • MMK Holdings (Asia) Limited (Member of the Board of Directors).	2005

Name	Year of birth	Current position/biography and outside memberships	Since
Igor V. Vier	1961	Vice-President for Commerce of OOO MMK Managing Company Mr Vier graduated from Magnitogorsk Institute of Mining and Metallurgy in 1983. After graduation, he started to work for MMK in Rolling Shop No. 2. He held various positions, including foreman, deputy shop manager and shop superintendent. From 1992, Mr Vier was head of the marketing department, head of long-term development and investment programmes administration and director for investments. Since 2001, he was deputy director and then director for finance and economy. In 2005, Mr Vier was appointed as Director for Information Technologies. Since 2006, he has served as Vice-President for Commerce of OOO MMK Managing Company. Mr Vier's outside activities include the following: • Joint Stock Company Schelkovky plant "Spezmontzhizdelie" (Member of the Board of Directors); and • OJSC MMK-Metiz (Member of the Board of Directors).	2005
Lyubov T. Gamper	1954	Director for Legal Matters Mrs Gamper graduated from Sverdlovsk Law Institute in 1977. She started to work for MMK in 1974 as a claims inspector. She was a legal adviser, head of contracts section and head of legal department. Between 1993 and 2006, she served as the head of the legal department. In 2006, she was appointed Director for Legal Matters.	1997
Victor F. Dyachenko	1958	Deputy Executive Director for Production, Maintenance and Repairs Mr Dyachenko graduated from Magnitogorsk Institute of Mining and Metallurgy in 1980. After graduation, he started to work for MMK as an assistant steelmaker. Since 1989, he has been working in the oxygen converter shop as production foreman, deputy shop manager and shop superintendent. In 2005 and 2006, Mr Dyachenko was Director for Production and in 2006, he was appointed Deputy Executive Director for Production, Maintenance and Repairs.	2005
Boris A. Dubrovskiy	1958	Director for Sales Mr Dubrovskiy graduated from Magnitogorsk Institute of Mining and Metallurgy in 1999. Mr Dubrovskiy started his career at MMK in 1976 as a fitter and has since held various positions including section manager, shop superintendent, chief rolling specialist, deputy commercial director-head of equipment purchasing administration, technical director-chief engineer and director of OOO MMMZ. In 2003, Mr Dubrovskiy was appointed Director for Domestic Sales and in 2005, he became Director for Sales.	2002

Name	Year of birth	Current position/biography and outside memberships	Since
Vyacheslav N. Egorov	1947	Director of CJSC Russian Metallurgical Company Mr Egorov graduated from Tomsk Polytechnical Institute in 1970. After graduation, Mr Egorov started work in the coke and chemical by-products division of MMK. He worked in various roles, including gas plant operator, shift manager, shop superintendent, chief engineer, head of coke and chemical by-product division and head of the purchasing administration. Since 1995, Mr Egorov has been a director of CJSC Russian Metallurgical Company. Between 1998 and 2005, he was the Chairman of the Board of Directors of MMK.	2006
Marina A. Zhemchueva	1960	Chief Accountant of MMK and OOO MMK Managing Company Mrs Zhemchueva graduated from Magnitogorsk Institute of Mining and Metallurgy in 1992 and has worked for MMK since 1981 as accountant, senior bookkeeper and deputy chief accountant. She has been Chief Accountant of MMK since 1995 and OOO MMK Managing Company since 2006.	1997
Dmitry S. Kaplan	1968	Deputy Executive Director for Information Technology Mr Kaplan graduated from Magnitogorsk Institute of Mining and Metallurgy in 1993. After graduation and military service, he worked in Russian-German Joint Venture CJSC SoftIncom. In 2002, Mr Kaplan started work at MMK as Deputy Chief Accountant. Between 2003 and 2006, he was head of corporate development administration. In 2006, Mr Kaplan was appointed Deputy Executive Director for Information Technology.	2006
Alexander L. Mastruev	1952	Director for Personnel and Social Programmes Mr Mastruev graduated from Magnitogorsk Institute of Mining and Metallurgy in 1981. After military service, he started to work for MMK in 1975 as a rolling stock maintenance engineer, subsequently serving as senior shift production foreman, shop superintendent, deputy head of steelmaking division and head of administration for human resource and social programmes. From 1994, he was the Deputy General Director for human resources, social programmes and inter-action with public organisations. Since 1995, he has been the Director for Personnel and Social Programmes of MMK. Mr Mastruev's outside activities include the following: • Autonomous Non-profit Organisation "Medical Care Unit of the City Administration of Magnitogorsk" and OJSC MMK (Member of the Management Board).	1997

Name	Year of birth	Current position/biography and outside memberships	Since
Alexey D. Nosov	1959	Director of OJSC MMK-Metiz Mr Nosov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1981. After graduating he started work at MMK as assistant steelmaker, subsequently becoming senior foreman, deputy shop manager, deputy head of production administration and chief metallurgist. From 2003 until 2006, he was Director of OOO Managing Company MMK-Metiz and, from June 2006, he has served as a Director of OJSC MMK-Metiz. Mr Nosov's outside activities include the following: • OJSC MMK-Metiz (Member of the Board of Directors).	2003
Ivan F. Timoshenko	1947	Director for General Affairs Mr Timoshenko graduated from Magnitogorsk Institute of Mining and Metallurgy in 1985. He started work at MMK in 1969 as a moulder, subsequently serving as section senior foreman, shop superintendent and assistant general director–head of administrative department. Since 1997, he has been Director for General Affairs.	1997
Arkadiy V. Chernov	1953	Head of the President's Staff of OOO MMK Managing Company Mr Chernov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1976. He started work at MMK in 1976 as a reheating furnace operator, subsequently holding various positions including head of research section at the central laboratory, senior technology engineer and head of department for planning and examination of transactions. Between 1997 and 2002, Mr Chernov was Aide to the General Director. From 2002, he was the Head of Administration of the General Director. In 2005 and 2006, Mr Chernov was the Head of the Chairman of the Board of Directors' Staff. In 2006, he was appointed Head of the President's Staff of OOO MMK Managing Company. Mr Chernov's outside activities include the following: • OJSC "CUB" (Deputy Chairman of the Board of Directors).	2000

Name	Year of birth	Current position/biography and outside memberships	Since
Vladimir I. Shmakov	1960	Vice-President for Finance and Economics of OOO MMK Managing Company Mr Shmakov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1983. He started his career at MMK in 1983 as a rollerman. He also held posts including shift manager and deputy head of long-term development and investment programmes administration. In 1994 and 1995, Mr Shmakov was head of investment department of FPG Magnitogorsk Steel. Between 1996 and 2001, he was deputy head and then head of long-term development and investment programmes administration. From 2001 to 2005, he was head of economy administration and in 2005 and 2006, he served as Director of Finance and Economy. Since 2006 he has been Vice-President for Finance and Economics of OOO MMK Managing Company. Mr Shmakov's outside activities include the following: • OJSC MMK-Metiz (Member of the Board of Directors); and • MMK Finance S.A. (Director).	2005
Oleg V. Fedonin	1967	Director for Corporate Strategy and Marketing of MMK Mr Fedonin graduated from Magnitogorsk Institute of Mining and Metallurgy in 1991 and started work at MMK as a blast-furnace operator in the same year. He has also served as an economist and head of section. Between 1997 and 2000, Mr Fedonin was head of the credit department and deputy head of Financial Resources Administration. From 2000 to 2005, he was head of Financial Resources Administration. In 2005 and 2006, Mr Fedonin was Head of Economics Administration and in 2006, he was appointed Director for Corporate Strategy and Marketing. Mr Fedonin's outside activities include the following: • OJSC "SKM Insurance Company" (Chairman of the Board of Directors since 2004); • OJSC "Magnitogorsk Cement Fireproof Plant" (Member of the Supervisory Council); • MMK Finance S.A. (Executive Director); and • Non-commercial Pension Fund "Social Protection of Old People" (Member of the Fund's Council).	2006

Name	Year of birth	Current position/biography and outside memberships	Since
Victor A. Kutischev	1958	Mr Kutischev graduated from Magnitogorsk Institute of Mining and Metallurgy in 1980. The same year he started work in the coke and chemical by-products division of MMK. He has occupied various positions, including foreman in charge of production, shop superintendent, chief engineer and first deputy director of coke and chemical by-products division. Between 1995 and 1997, he worked as deputy head of procurement administration and in 1997 and 1998 held the office of deputy commercial director for supplies. In 1998, he was appointed Commercial Director. Prior to March 2007, Mr Kutischev served as a member of MMK's Board of Directors. Mr Kutischev does not serve as a director of any other entity.	2007
Nikolai V. Lyadov	1956	Mr Lyadov graduated from Magnitogorsk Institute of Mining and Metallurgy in 1978 specialising in industrial transport. After graduating he started work for MMK, holding various positions including dispatcher, head of railway district, director of Vneshtransservis, head of transportation and shipping administration of MMK's trading house and head of the economic security department. In 2002, Mr Lyadov was appointed Director for Security. Prior to March 2007 Mr Lyadov served as a member of MMK's Board of Directors. Mr Lyadov's outside activities include the following: • OJSC Vladivostok Sea Trade Port (Member of the Supervisory Board).	2007

In the previous five years, no member of the Management Board has been convicted of any fraudulent offence; has served as a director, partner, founder or senior manager of any organisation that has suffered any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies; or has been disqualified by a court from acting as a director of an issuer or from acting in the management or conduct of the affairs of any issuer.

Managing Company/General Director

In accordance with a resolution of the General Shareholders' Meeting dated 26 May 2006, the authority of the sole executive body of MMK, the General Director, was transferred to a managing company, OOO MMK Managing Company. Mr Rashnikov is the President of OOO MMK Managing Company, Messrs. Morozov, Krivoshchekov, Senichev, Shmakov, Takhautdinov and Vier are Vice-Presidents of OOO MMK Managing Company, Mr Chernov is the Head of the President's staff and Mrs Zhemchueva is Chief Accountant of OOO MMK Managing Company. The charter of OOO MMK Managing Company does not provide for the establishment or the election of any other management body. MMK owns 100 per cent. of OOO MMK Managing Company.

Mr Rashnikov was appointed the president of OOO MMK Managing Company by MMK in its capacity as sole shareholder of OOO MMK Managing Company and, as the president, is authorised to represent MMK without a power of attorney. He is also the Chairman of the Board of Directors of MMK and its principal shareholder. See "Principal Shareholders and Selling Shareholder".

The transfer of authority to OOO MMK Managing Company and the appointment of Mr Rashnikov as president thereof was made as part of the MMK Group's corporate governance programme, and it is possible that within this programme OOO MMK Managing Company may become the sole executive body for subsidiaries within the MMK Group, although no definitive decision has yet been made.

The competence of OOO MMK Managing Company includes the day-to-day management of MMK, except for those matters that fall within the power of the General Shareholders' Meeting, the Board of Directors and the collegial executive body—the Management Board.

OOO MMK Managing Company, represented by its President, is empowered to act without power of attorney on behalf of MMK and represents MMK in the state regulatory bodies, local governments, institutions and organisations, opens and closes bank current accounts and other accounts.

MMK signed a five-year management contract with OOO MMK Managing Company in 2006, pursuant to which MMK pays such company RUB 17.6 million per month as a fee for its management services.

The OOO MMK Managing Company is entitled to propose to the Management Board the matters falling within his competence.

Auditors and Review Commission

On the recommendation of the Board of Directors of MMK, MMK's annual General Shareholders' Meeting of 21 April 2006 approved ZAO Deloitte & Touche CIS as the auditors of the MMK Group's financial statements prepared pursuant to Russian standards and U.S. GAAP. Accordingly, ZAO Deloitte & Touche CIS audited the MMK Group's accounts and financial statements pursuant to U.S. GAAP for the year ended 31 December 2006. KPMG Limited audited the MMK Group's accounts and financial statements pursuant to U.S. GAAP for the years ended 31 December 2004 and 2005.

The control over financial and economic activities of the MMK Group is carried out by the Review Commission.

The following matters fall within the competence of the Review Commission:

- check of reliability of the MMK Group's accounting processes;
- auditing of the MMK Group's financial and economic activities based on the results of the year and at any time upon the initiative of the Review Commission, resolution of the General Shareholders' Meeting, the Board of Directors and upon request of a shareholder (shareholders) holding in aggregate not less than 10 per cent. of voting shares;
- right to claim from the MMK Group's officials to provide the documents on financial and economic activities;
- right to invite independent experts, auditors and other experts in the course of revision;
- preparation of the plan for financial and economic activities revision;
- issuance of the audit report on the results of the revision of the MMK Group's financial and economic activities providing the confirmation of reliability of the information contained in the accounts and financial documents; information on violations of legally prescribed procedures for accounting and submission of financial statements as well as of regulatory acts of the Russian Federation on the financial and economic activities. A special opinion of the Review Commission member(s) disagreed with the audit report and should be attached to the audit report as its integral part;
- submission of the audit report to the Board of Directors;
- right to claim the convocation of an extraordinary General Shareholders' Meeting and meeting of the Board of Directors; and
- right to attend General Shareholders' Meetings.

The audit report on the results of the annual revision of the MMK Group's financial and economic activities should be submitted to the Board of Directors not later than 30 days prior to the annual General Shareholders' Meeting. and

Pursuant to MMK's Charter, the Review Commission consists of three members. The members of the Review Commission are elected at the annual General Shareholders' Meeting in the order provided by the Federal Law on Joint Stock Companies, MMK's Charter and the Regulation on MMK's Review Commission for the period until the next annual General Shareholders' Meeting and may be from time to time re-elected.

The current members of the Review Commission (all of which are independent as such term is defined in Russian legislation) are:

Name	Position
Nadezhda Kalimullina	Member
Alla Kuznetsova	Chair
Tatiana Tychkova	Member

Audit Committee of the Board of Directors

MMK's Audit Committee is responsible for selecting candidates for the position of MMK's auditor, evaluating auditors' reports and evaluating MMK's internal control and risk management procedures.

The Audit Committee consists of four members of the Board of Directors:

- Andrey Morozov;
- Peter Charow;
- Zumrud Rustamova; and
- Kirill Levin.

The Audit Committee is chaired by Kirill Levin.

Committee for Investment Policy and Government Relations of the Board of Directors

MMK's Committee for Investment Policy and Government Relations is responsible for investment, technical, economic and supply policy, strategic marketing and interaction with state bodies.

The Committee for Investment Policy and Government Relations consists of three members of the Board of Directors:

- Andrey Morozov;
- Rafkat Takhautdinov; and
- Gennady Senichev.

The Committee for Investment Policy and Government Relations is chaired by Andrey Morozov.

Committee for Strategic Planning and Corporate Governance of the Board of Directors

MMK's Committee for Strategic Planning and Corporate Governance is responsible for strategic planning, corporate governance, resolution of corporate conflicts, economics, finance, credit and dividend policy of MMK.

The Committee for Strategic Planning and Corporate Governance Committee consists of five members of the Board of Directors:

- Sergey Krivoshchekov;
- Victor Rashnikov;
- Gennady Senichev;
- Zumrud Rustamova; and
- Rafkat Takhautdinov.

The Committee for Strategic Planning and Corporate Governance is chaired by Victor Rashnikov.

Staff and Compensation Committee

MMK's Staff and Compensation Committee is responsible for MMK's staff policy, setting standards for the selection of candidates to MMK's governing bodies, making recommendations on remuneration of the members of MMK's governing bodies and the Review Commission.

The Staff and Compensation Committee consists of four members of the Board of Directors:

- Andrey Gorodissky;
- Sir David Logan;
- Victor Rashnikov; and
- Kirill Levin.

The Staff and Compensation Committee is chaired by Andrey Gorodissky.

Remuneration of members of the Board of Directors and the Management Board

In 2005, the members of the Board of Directors were paid remuneration and compensation in a total aggregate amount of RUB 81.8 million (including as employees of MMK), and the members of the Management Board were paid remuneration and compensation in an aggregate amount of RUB 99.8 million, including sums paid to them as employees of MMK and as employees of MMK's subsidiaries. Amounts paid to persons who were members of both boards are included herein only under amounts paid to directors.

In 2006, the members of the Board of Directors were paid remuneration and compensation in an aggregate amount of RUB 79.8 million (including as employees of MMK), employees of OOO MMK Managing Company (as described above in "—Managing Company/General Director") were paid remuneration and compensation of RUB 8.8 million per month, and the members of the Management Board were paid remuneration and compensation in a total aggregate amount of RUB 193.5 million, including sums paid to them as employees of MMK, as employees of OOO MMK Managing Company (RUB 68.1 million) and as employees of MMK's subsidiaries.

In each case, such sums were paid pursuant to approved contracts and on the basis of the financial and economic results of the MMK Group's activities in the reporting period.

No loans have been provided to, and no guarantees have been granted in respect of obligations of, the members of MMK's Board of Directors and Management Board.

No member of MMK's Board of Directors or Management Board is a party to any service contract with MMK or any of its subsidiaries where such contract provides for benefits upon termination of employment.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

The following table sets forth principal direct shareholders of MMK immediately prior to this Offering, including the Selling Shareholder and other shareholders who own 5 per cent. or more of the outstanding share capital of MMK, and the expected ownership of Ordinary Shares by such shareholders immediately following this Offering and the Open Subscription, assuming exercise of the Over-allotment Option in full and that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised. Each percentage of direct shareholdings is based on an aggregate of 10,630,221,600 Ordinary Shares outstanding as at 12 February 2007, each such Ordinary Share with a par value of RUB 1.

	As at 12 February 2007		As adjusted for this Offering and the Open Subscription, based on the assumptions set out above	
	Number of Ordinary Shares	**In per cent.**	**Number of Ordinary Shares**	**In per cent.**
Mintha Holding Limited[1,2]	4,511,534,900	42.44	4,379,714,900	37.53
Fulnek Enterprises Limited[2]	4,582,345,824	43.11	4,582,345,824	39.27
U.F.G.I.S. Structured Holdings Limited[3]	783,000,000	7.37	783,000,000	6.71
Treasury shares[4]	468,406,399	4.40	468,406,399	4.01
Subtotal	10,345,287,123	97.32	10,213,467,123	87.52
Free float[5]	284,934,477	2.68	1,456,754,477	12.48
Total	**10,630,221,600**	**100.00**	**11,670,221,600**	**100.00**

Notes:

(1) Mintha Holding Limited is the Selling Shareholder in this Offering. Mintha Holding Limited is a limited liability company established in the Republic of Cyprus.

(2) Mr Rashnikov, the chairman of MMK's Board of Directors and the president of OOO MMK Managing Company, beneficially owns the Ordinary Shares in MMK held by Mintha Holding Limited and Fulnek Enterprises Limited. As a result of his beneficial ownership in these companies, Mr Rashnikov controls MMK. The Ordinary Shares indirectly owned by Mr Rashnikov do not have any different voting rights to those held by other shareholders of MMK.

(3) Deutsche Bank AG purchased 783,000,000 Ordinary Shares from Mintha Holding Limited on 19 June 2006 under a repurchase transaction and holds such Ordinary Shares through U.F.G.I.S. Structured Holdings Limited, a member of Deutsche Bank AG Group. Mintha Holding Limited has a right to repurchase these Ordinary Shares, on or prior to 20 June 2009 and is required to repurchase such Ordinary Shares on 20 June 2009.

(4) Treasury shares include 464,424,549 Ordinary Shares held by CJSC A-Kapital and 3,099,750 Ordinary Shares held by OOO Mekom, the title to which is beneficially owned by such entities. In addition, treasury shares include 128,600 Ordinary Shares held by OOO Investment Company RFC and 753,500 Ordinary Shares held by OOO Mekom as a trust manager on behalf of individuals and the title to these shares is not beneficially owned by MMK or such entities.

(5) Consists of more than 8,100 minority shareholders.

As at 12 February 2007, approximately 85.55 per cent. of MMK's share capital was indirectly controlled by Mr Rashnikov, the Chairman of MMK's Board of Directors and the president of OOO MMK Managing Company (not including treasury shares held by members of the MMK Group). In addition, Mr Rashnikov was indirectly entitled to an option prior to 20 June 2009, failing which is obliged on 20 June 2009, to purchase a further 7.37 per cent. of such share capital. See "Management and Corporate Governance—Board of Directors". Immediately upon completion of the Offering and the Open Subscription, assuming exercise of the Over-allotment Option in full and that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised, Mr Rashnikov is expected to beneficially own approximately 76.79 per cent. of the Ordinary Shares of MMK (not including Ordinary Shares subject to the option described above and not including treasury shares). Other members of the Board of Directors of MMK do not hold Ordinary Shares.

Two members of the Management Board, Ms Gamper and Mr Nosov, own small numbers of Ordinary Shares, which in the aggregate do not exceed 0.1 per cent. of MMK's share capital.

INTERESTED PARTY TRANSACTIONS

MMK has engaged in transactions with affiliated persons, in particular with certain of its shareholders, including Mr Rashnikov, directors and executive officers and companies controlled by them or in which they or MMK own an interest. Such transactions include equity purchases and sales, supply contracts, loan arrangements, guarantees in relation to real property acquisitions and loans. These transactions constitute "interested party transactions" under Russian law. MMK is required to comply with applicable Russian law with respect to these interested party transactions. In addition, MMK is required to report all "related party transactions", as defined by U.S. GAAP, in accordance with U.S. GAAP. See "Risk Factors—Risks Relating to the Ordinary Shares and GDRs—MMK has engaged and may continue to engage in interested party transactions".

Interested Party Transactions under Russian Law

The Federal Law on Joint Stock Companies requires a company that enters into interested party transactions to comply with special approval procedures. Under such law, an "interested party" can include, in the case of any member of the MMK Group:

- members of the Board of Directors or the Management Board or OOO MMK Managing Company;
- members of the board of directors or the management board of such member or the general director of such member;
- any shareholder that owns, including together with its affiliates, 20 per cent. or more of such member's voting shares; or
- a person who on legal grounds has the right to give mandatory instructions to such member,

if any of the above-listed persons, or a close relative or affiliate of such person, is:

- party to, or a beneficiary of, a transaction with such member, whether directly or as a representative or intermediary;
- the owner (singly or in the aggregate) of at least 20 per cent. of the shares in a company that is a party to, or a beneficiary of, a transaction with such member, whether directly or as a representative or intermediary; or
- a member of the board of directors or any management body or managing company of a company that is a party to, or a beneficiary of, a transaction with such member, whether directly or as a representative or intermediary.

Under applicable Russian law, interested party transactions must be approved before they are concluded by the majority vote of members or independent members of the board of directors of such member of the MMK Group who are not interested in the relevant transaction, or by a majority of shareholders not interested in the relevant transaction at a general meeting of shareholders of such member, as the case may be. If all the members of the board of directors of such member are deemed interested persons and/or are not independent directors, the transaction may be approved by the general meeting of shareholders of such member.

A decision to approve an interested party transaction must be adopted by the general meeting of shareholders of such member by a majority of votes of all of the shareholders not interested in the deal who hold voting shares, if:

- the subject matter of the transaction or interconnected transactions is assets with a value of 2 per cent. or more of the total assets of the relevant member of the MMK Group, according to its financial statements prepared on the basis of Russian GAAP as of the last accounting date, save for the transactions specified in the two following paragraphs;
- the transaction or several interconnected transactions are a flotation by subscription or a sale of shares amounting to over 2 per cent. of the ordinary shares floated previously by such member and any ordinary shares into which any securities issued previously can be converted; or
- the transaction or several interconnected transactions are a flotation by subscription of securities convertible into shares which can be converted into ordinary shares amounting to over 2 per cent. of the ordinary shares floated previously by such member and ordinary shares that can be obtained from the conversion of securities floated previously into shares.

An interested party transaction not executed in compliance with such laws may be deemed invalid if a complaint is filed by the relevant company or by a shareholder thereof. In such a case, the interested party will be liable to such company for any losses caused by such interested party to the relevant company. If several such persons are liable, their responsibility to the relevant company shall be joint and several.

The above statutory requirements are not applicable to the members of the MMK Group in the following cases:

- if the sole shareholder of such member is at the same time its general director or managing company; or
- if all shareholders of such member are interested parties to the relevant transaction; or
- if the shareholders of such member exercise their preferential right of purchase of the shares and securities convertible into shares of such member being placed; or
- if such member purchases or redeems its own outstanding shares; or
- if such member is being reorganised in the form of merger or acquisition; or
- if the transaction is obligatory for such member under applicable law or regulation of the Russian Federation and payments under such transactions shall be made on the basis of fixed prices and tariffs set by authorised state bodies.

MMK believes that its interested party transactions have been and will continue to be concluded on an arm's length basis, and has put in place procedures to identify and monitor such interested party transactions. In particular, MMK maintains a register of such transactions in accordance with its internal regulations.

In addition to the transactions described below, the MMK Group enters into transactions in the regular course of business with parties who may be considered "interested" parties for the purposes of the Federal Law on Joint Stock Companies, which MMK believes are not material to the MMK Group or the other party. These transactions have included taking loans from and making deposits with JSB Gazprombank (CJSC) and Sberbank (Savings Bank of the Russian Federation). The MMK Group also from time to time engages the law firm Andrey Gorodissky and Partners, which has a partner who is a member of MMK's Board of Directors and maintains an indirect ownership interest in CJSC Status, its registrar and holds an interest in its pension funds. See "Management and Corporate Governance—Board of Directors".

Related Party Transactions under U.S. GAAP

The following is a summary of the major transactions involving related parties as defined under U.S. GAAP for the years ended 31 December 2004, 2005 and 2006. MMK believes that the terms of these transactions were determined by reference to market prices and terms.

CJSC Profit

CJSC Profit ("Profit"), a company affiliated with MMK's ultimate controlling shareholder, purchases scrap metals from third parties and partly from the MMK Group, reprocesses it and sells reprocessed scrap metals to the MMK Group.

The total amount of sales by the MMK Group to Profit in 2004, 2005 and 2006 was U.S.$40 million, U.S.$78 million and U.S.$125 million, respectively. The total amount of purchases by the MMK Group from Profit in 2004, 2005 and 2006 was U.S.$245 million, U.S.$337 million and U.S.$771 million, respectively. In 2005, the MMK Group provided a loan to Profit in the amount of U.S.$26 million with an interest rate of 6 per cent. per annum, which was repaid during 2005.

As of 31 December 2004, 2005 and 2006, the MMK Group had accounts receivable from Profit of U.S.$21 million, U.S.$0 million and U.S.$13 million, respectively and accounts payable to Profit of U.S.$1 million, U.S.$6 million and U.S.$5 million, respectively.

On 30 March 2007, the Annual Shareholders' Meeting of MMK approved a five year contract with Profit pursuant to which MMK may purchase up to 32 million metric tons of metal charge over such five year period. See "Business—Raw Materials".

MMK expects such purchase and sale transactions to continue following this Offering, but does not expect to provide further loans after the Offering.

As at 31 December 2004, 2005 and 2006, the MMK Group had outstanding U.S.$49 million, U.S.$133.7 million and U.S.$175 million, respectively, of guarantees that it had granted to major Russian banks as security for the obligations of Profit under certain loans that Profit had entered into. Profit repaid in 2004 in full such loan obtained in 2004 and partly repaid such loans obtained in 2005. Such loans obtained by Profit in 2006 are due to be repaid in 2008, 2009 and 2010. Profit is not and has not been in breach of its obligations under these loans. On 30 March 2007, the Annual Shareholders' Meeting of

MMK approved the extension by a further year by the MMK Group of existing guarantees in favour of creditors of Profit in the amount of U.S.$98.5 million.

The MMK Group may continue to grant such guarantees to Profit's creditors following the Offering.

OJSC CUB

The MMK Group holds certain deposits and current accounts in OJSC CUB ("CUB"), a commercial bank affiliated with MMK's management during the periods under review. In March 2007, MMK's ultimate controlling shareholder sold CUB to JSB Gazprombank (CJSC), which now owns 100 per cent. of CUB. During 2004, 2005 and 2006 the MMK Group received financing from CUB in the form of loans for the MMK Group's operating activities.

The total amount of bank charges paid by the MMK Group to CUB in 2004, 2005 and 2006 was U.S.$11 million, U.S.$11 million and U.S.$12 million, respectively. The total amount of loans and overdrafts obtained by the MMK Group from CUB in 2004, 2005 and 2006, all of which were at interest rates not exceeding the current refinancing rate of the CBR, was U.S.$21 million, U.S.$24 million and U.S.$36 million, respectively. The total amount of loans and overdrafts repaid by the MMK Group to CUB in 2004, 2005 and 2006 was U.S.$27 million, U.S.$20 million and U.S.$40 million, respectively.

As of 31 December 2004, 2005 and 2006, the MMK Group had cash and cash equivalents held on CUB's standard terms with CUB of U.S.$85 million, U.S.$44 million and U.S.$151 million, respectively and loans and overdraft facilities with CUB of U.S.$5 million, U.S.$9 million and U.S.$6 million, respectively.

MMK expects to continue to maintain deposits with, and draw-down loans from, CUB following this Offering.

OOO MMK Trans

OOO MMK Trans ("Trans"), the MMK Group's affiliate, indirectly held by MMK through a member of the MMK Group, provides transportation and forwarding services to the MMK Group. In 2004 the MMK Group provided loans to Trans.

The total amount of sales by the MMK Group to Trans in 2004, 2005 and 2006 was U.S.$13 million, U.S.$1 million and U.S.$1 million, respectively. The total amount of purchases by the MMK Group from Trans of such transportation services in 2004, 2005 and 2006 was U.S.$31 million, U.S.$27 million and U.S.$24 million, respectively. In 2004, the MMK Group provided a loan to Trans in the amount of U.S.$2 million at a 7 per cent. per annum rate of interest, which was repaid during 2004.

As of 31 December 2004, 2005 and 2006, the MMK Group had accounts receivable from Trans of U.S.$2 million, U.S.$3 million and U.S.$4 million, respectively and accounts payable to Trans of U.S.$0 million, U.S.$2 million and U.S.$2 million, respectively.

MMK expects Trans to continue to supply such transportation and forwarding services to the MMK Group following this Offering but does not thereafter expect to provide further loans to Trans.

As at 31 December 2005, the MMK Group had outstanding a U.S.$5 million guarantee, granted to CJSC CB Citibank as security for the obligations of Trans under a short-term credit contract. Trans repaid this loan in full during 2006. The MMK Group may continue to grant such guarantees to Trans' creditors following the Offering.

OJSC SKM

OJSC SKM ("SKM"), an insurance company affiliated with MMK's ultimate controlling shareholder and management, provides insurance services to the MMK Group. The total amount of insurance premiums accrued by the MMK Group to SKM in 2004, 2005 and 2006 was U.S.$31 million, U.S.$30 million and U.S.$37 million, respectively. In 2006, the MMK Group provided a loan to SKM in the amount of U.S.$2 million at an interest rate of 10.92 per cent. per annum, which was repaid during 2006.

As of 31 December 2004, 2005 and 2006, the MMK Group had accounts payable (including insurance premiums) to SKM of U.S.$0 million, U.S.$1 million and U.S.$1 million, respectively.

MMK expects SKM to continue to supply insurance services to the MMK Group following this Offering, but does not thereafter expect to provide further loans to SKM.

CJSC Kazankovskaya Coal Company

CJSC Kazankovskaya Coal Company ("Kazankovskaya"), an affiliate of the MMK Group, holds a licence to explore and mine coal deposits located in the Kemerevo region, the Russian Federation. In 2005 and 2006 the MMK Group provided loans to Kazankovskaya at an interest rate of 10 per cent. per annum in the amount of U.S.$14 million and U.S.$20 million, respectively to be repaid by 31 December 2013.

As of 31 December 2004, 2005 and 2006, the MMK Group had recorded balances of loans provided to Kazankovskaya of U.S.$0 million, U.S.$14 million and U.S.$39 million, respectively.

MMK expects to purchase coal from Kazankovskaya once such deposits begin to yield coal, see "Business—Raw Materials and Energy". MMK does not expect to provide any further loans to Kazankovskaya following the Offering.

CJSC SKM-Invest

CJSC SKM-Invest ("SKM-Invest"), a leasing company affiliated with MMK's management, provides assets under financial lease to the MMK Group. The total amount of lease payments made by the MMK Group to SKM-Invest in 2004, 2005 and 2006 was U.S.$3 million, U.S.$8 million and U.S.$15 million, respectively.

As of 31 December 2004, 2005 and 2006, the MMK Group had recorded balances of lease payable to SKM-Invest of U.S.$19 million, U.S.$18 million and U.S.$25 million, respectively.

MMK expects SKM-Invest to continue to supply leasing services to the MMK Group following this Offering.

As at 31 December 2004, 2005 and 2006, the MMK Group had outstanding U.S.$14 million, U.S.$22.4 million and U.S.$26 million, respectively, of guarantees that it had granted to major Russian banks as security for the obligations of SKM-Invest under certain long-term credit contracts. SKM-Invest has partly repaid such loans obtained in 2004. The remaining outstanding loans are due to be repaid between 2007 and 2012. The MMK Group may continue to grant such guarantees to SKM-Invest's creditors following the Offering.

OOO Leasing-M

OOO Leasing-M ("Leasing-M"), a leasing company, was an affiliated party to MMK management in 2004. Leasing-M ceased to be affiliated in 2005 due to a change of its management. In 2004, the MMK Group made U.S.$11 million of lease payments to Leasing-M. As at 31 December 2004, the MMK Group had outstanding a U.S.$6.7 million guarantee that it has granted to Sberbank as security for the obligations of Leasing-M under a long-term credit contract. Leasing-M partly repaid such loan in 2005.

OOO M-Port

OOO M-Port ("M-Port"), a company affiliated to MMK, received a U.S.$1 million loan from MMK in 2005, which was repaid in 2006. The MMK Group does not expect to make further loans to M-Port after the Offering.

Housing-Investment Fund Klyuch

Housing-Investment Fund Klyuch ("Klyuch") is a non-commercial organisation founded by MMK in 1995 to develop home building for MMK's employees. Klyuch was affiliated to MMK in 2004, but ceased to be affiliated in 2005. As at 31 December 2004, the MMK Group had outstanding a U.S.$10.5 million guarantee that it had granted to major Russian banks as security for the obligations of Klyuch under certain long-term credit contracts with maturities between 2006 and 2007.

OOO MMK-Luch

In 2004, the MMK Group generated U.S.$25 million in revenue from production sales to OOO MMK-Luch, a trading company affiliated with MMK's management. OOO MMK-Luch ceased to be affiliated with MMK in 2005 due to a change of its management.

DESCRIPTION OF SHARE CAPITAL, RIGHTS ATTACHING TO ORDINARY SHARES AND APPLICABLE RUSSIAN LAW

Immediately prior to this Offering, MMK's authorised and issued share capital of RUB 10,630,221,600 consisted of 10,630,221,600 Ordinary Shares, each with a par value of RUB 1. MMK also has 27,342,444,000 authorised but unissued Ordinary Shares out of which 1,450,000,000 have been authorised for issuance.

MMK's Ordinary Shares are currently traded on the RTS and MICEX.

Issuance of New Shares as part of the Offering

On 15 December 2006, the Board of Directors of MMK decided to increase the share capital of MMK by RUB 1,450,000,000 through the placement of 1,450,000,000 additional Ordinary Shares in the Open Subscription. This share issuance was registered with the FSFM under registration number 1-03-00078-A-002D on 18 January 2007. Each shareholder of MMK was permitted to exercise his pre-emption right to purchase additional Ordinary Shares pro rata to the number of Ordinary Shares held by that shareholder as at 15 December 2006. The statutory Russian share prospectus was registered by the FSFM on 18 January 2007. Following the Offering and Open Subscription (assuming that pre-emption rights in the Open Subscription are exercised by the Selling Shareholder as set out on page 35, but that no other pre-emption rights are exercised). MMK's share capital will consist of 11,670,221,600 issued and outstanding Ordinary Shares, resulting in dilution as more fully described in "Dilution".

History

Privatisation

On 17 October 1992, when MMK was first privatised, the authorised capital of MMK was RUB 8,858,518,000, consisting of 6,643,888 registered Ordinary Shares each with a nominal value of RUB 1,000 and 2,214,630 registered preference shares each with a nominal value of RUB 1,000. All preference shares, comprising in total 25 per cent. of the capital of MMK, were allocated to MMK's employees. In addition, MMK's employees acquired 768,299 Ordinary Shares, representing 8.67 per cent. of the capital of MMK, in the course of the closed subscription. In accordance with the Privatisation Plan of MMK, 442,926 Ordinary Shares, representing 5 per cent. of MMK's capital, were allocated among MMK's management. A further 885,852 Ordinary Shares, representing 10 per cent. of MMK's capital, formed an Employees Shareholding Fund.

As a result of an auction held on 25 August 1994 by the Property Fund of Chelyabinsk Oblast, a further 2,696,156 Ordinary Shares, representing 30.44 per cent. of MMK's capital, were distributed to 1,051 legal entities and individuals. Another auction in respect of 269,756 Ordinary Shares, representing 3.05 per cent. of the capital of MMK, was held on 25 August 1995 and such Ordinary Shares were acquired by AOOT Magnitogorsk Steel. 1,580,899 Ordinary Shares (1,897,078,800 Ordinary Shares following the capital increase and share split described below), comprising 17.85 per cent. of MMK's total capital (ordinary and preference shares), remained under federal ownership. These Ordinary Shares were sold at public auction by the Russian Federal Property Fund Specialised State Institution of the Government of the Russian Federation on 22 December 2004 (the "Auction").

Capital Increase and Share Split

In 2002, in accordance with a resolution of the General Shareholders' Meeting of MMK, MMK's capital was increased 1,200 times (by way of an increase of the nominal value of the Ordinary Shares) to RUB 10,630,221,600. This increase was part of MMK's strategy to access the international capital markets and attract major investment from international investors by way of unsecured bond issues and loan facilities. The increase was followed by a share split, which resulted in the nominal value of one share falling from RUB 1,000 to RUB 1.

Share Conversion

On 23 September 2005, MMK converted 2,657,556,000 preference shares into 2,657,556,000 Ordinary Shares. The decision on the issuance of Ordinary Shares for the purposes of conversion was approved by MMK's Board of Directors on 3 August 2005 and registered with the FSFM on 8 September 2005 and the relevant report of the results of the share issuance in relation to such share conversion was registered with the FSFM on 18 October 2005.

Principal Shareholders

As at 12 February 2007, Mr Rashnikov, the Chairman of MMK's Board of Directors, controlled indirectly, 85.55 per cent. of MMK's share capital through the shares held by Mintha Holding Limited ("Mintha") and Fulnek Enterprises Limited ("Fulnek"). This number does not include shares representing 7.37 per cent. of MMK's share capital currently held by U.F.G.I.S. Structured Holdings Limited which Mintha has an option to acquire prior to 20 June 2009 and, if such option is not exercised, is obliged to repurchase on 20 June 2009. Mintha and Fulnek are both limited liability companies established in the Republic of Cyprus and Mr Rashnikov is the beneficial owner of these companies. This number also does not include treasury shares held by subsidiaries of MMK.

Fulnek and Mintha purchased the Ordinary Shares in MMK in 2004 and 2005 under a series of private transactions and, in the case of Mintha, at the auction through U.F.G.I.S. Structured Holdings Limited (as agent). As at 12 February 2007, Mintha holds 4,511,534,900 Ordinary Shares, representing 42.44 per cent. of the share capital of MMK. Mintha is the Selling Shareholder in this Offering. As at 12 February 2007, Fulnek holds 4,582,345,824 Ordinary Shares, representing 43.11 per cent. of the share capital of MMK.

Mintha sold 783,000,000 Ordinary Shares to Deutsche Bank AG on 20 June 2006 under a repurchase transaction. Deutsche Bank AG holds such Ordinary Shares through U.F.G.I.S. Structured Holdings Limited, a member of the Deutsche Bank AG Group, and Mintha has the right to repurchase these Ordinary Shares, in whole or in part, on or prior to 20 June 2009, failing which Mintha is obliged to repurchase such Ordinary Shares on 20 June 2009.

Rights of Holders of Ordinary Shares

As required by the Federal Law on Joint Stock Companies and MMK's charter, all Ordinary Shares of MMK have the same nominal value and grant identical rights to their holders. Each fully paid Ordinary Share, except for treasury shares, gives its holder the right to:

- transfer that Ordinary Share freely without the consent of other shareholders;
- participate in General Shareholders' Meetings of MMK with the right to vote on all issues within the competence of the General Shareholders' Meeting;
- receive dividends;
- upon MMK's liquidation, receive part of MMK's assets after MMK's obligations to creditors have been fulfilled;
- enter into transactions with regard to that Ordinary Share;
- receive information relating to MMK in accordance with the procedure established by the relevant Russian laws and by MMK's charter;
- challenge in court any resolution passed by a General Shareholders' Meeting in violation of applicable law or MMK's charter if he did not participate in the relevant General Shareholders' Meeting or voted against the relevant resolution, and if that resolution violated his rights or legitimate interests;
- demand that the company repurchase the Ordinary Shares owned by him if he voted against, or did not participate in the voting on, any resolution passed by a General Shareholders' Meeting approving the reorganisation of MMK, the conclusion of a major transaction subject to provisions of the Federal Law on Joint Stock Companies, any interested party transaction or any amendment of MMK's charter or approval of a new edition of MMK's charter that restricts his rights;
- participate in the General Shareholders' Meeting in person or through his representative;
- receive information relating to MMK and have access, among other things, to MMK's foundation documents; documents confirming title to MMK's assets; MMK's internal regulations; minutes of MMK's General Shareholders' Meeting and Board of Directors' meeting; independent appraisers' reports; lists of MMK's affiliates; lists of shareholders entitled to participate in the general meeting of shareholders and receive dividends; reports of the internal auditor, external auditor, and state and municipal financial control bodies; and annual reports, and receive copies of such documents for a reasonable fee;
- if holding 25 per cent. or more of MMK's voting Ordinary Shares, have an opportunity to access accounting documents in accordance with Russian law and MMK's charter;

- if holding, alone or with other shareholders, 2 per cent. or more of MMK's voting Ordinary Shares, submit proposals for the agenda of the General Shareholders' Meeting and nominate candidates to the Review Commission and to the Board of Directors within 40 days after the end of the fiscal year;
- challenge in court major and interested party transactions if entered into in violation of the applicable statutory procedures;
- if holding, alone or with other shareholders, 10 per cent. or more of MMK's voting Ordinary Shares, demand to call an extraordinary shareholders' meeting or an unscheduled audit by the internal auditor;
- exercise pre-emption rights to acquire MMK's Ordinary Shares in cases provided for by law; and
- exercise other rights of a shareholder provided in MMK's charter.

Pre-emption Rights

The Federal Law on Joint Stock Companies grants existing shareholders a pre-emption right to purchase, in proportion to their existing holdings of MMK's shares, any shares of the same class, or securities convertible into those shares, that MMK proposes to place in an open subscription. Shareholders who voted against or did not participate in voting on the placement of MMK's shares, or securities convertible into shares, in a closed subscription are entitled to acquire an amount of those shares or convertible securities in proportion to their existing holdings of the shares. These rules do not apply when the shares are placed solely among the existing shareholders and all those existing shareholders are entitled to acquire new shares in an amount that is proportionate to their existing holdings and such new shares are not fractional.

Generally, MMK must provide its shareholders with 45 days' notice of their pre-emption rights prior to an offering of shares, or securities convertible into shares, during which time the shareholders may exercise their pre-emption rights and pay for the shares at a price that has already been fixed. According to MMK's charter, notice to the shareholders must be sent to the shareholders by registered post and published in the Russian newspapers *Magnitogorskiy rabochiy* and *Magnitogorskiy metall*. However, if in the open subscription the offer price of the shares, or the securities convertible into shares, is to be fixed only after the end of the period during which the shareholders may exercise their pre-emption rights, MMK needs only provide its shareholders with 20 days' notice (in the case of an open subscription) of the proposed offering, in the same manner as described above, during which time the shareholders may exercise their pre-emption rights by sending a notice to MMK to this effect. Once the offer price has been fixed and disclosed, shareholders must pay for their new shares within a period set by MMK. That period must not be less than five business days.

Anti-Takeover Protection and Minority Shareholder Redemption

Overview

Since the entry into force of new legislation on 1 July 2006, new rules apply to the acquisition of shares in open joint stock companies. A summary of the relevant provisions of the Federal Law on Joint Stock Companies is set forth below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

Voluntary public offer

A person intending to purchase more than 30 per cent. of the total number of the ordinary shares and preference shares (provided that those shares carry voting rights), or voting shares, in an open joint stock company (taking into account shares already held by it and its affiliates) has the right to make a public offer to all the shareholders of the company to buy their shares, or a voluntary public offer to purchase shares held thereby.

Compulsory public offer

Within 35 days after acquisition by any means of more than 30 per cent. of a company's voting shares, the acquirer will have to make a public offer to purchase the remaining voting shares, and securities convertible into such voting shares, or the securities, from the holders of such securities, or a compulsory public offer. The obligation to make a compulsory public offer also arises for a shareholder who has acquired voting shares and, as a result of such acquisition, the number of the voting shares held by it and its affiliates has passed the threshold of 50 per cent. or 75 per cent. of the company's voting shares.

Competing public offer

At any time after the company receives a voluntary or a compulsory public offer, and up to 25 days prior to the expiry of the relevant acceptance period, any person has the right to make a competing public offer (that satisfies the requirements for voluntary or compulsory public offers, respectively) to purchase the number of securities, and at a price that is greater than or equal to that of the original offer. Any securityholder may revoke its previous acceptance of the original offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the original offer so that such person may amend its offer by increasing the purchase price and/or shortening the settlement period.

Public offer requirements

Voluntary and compulsory public offers, or offers, to the holders of the securities to be acquired must contain information provided by the Federal Law on Joint Stock Companies and be sent through the company, and an offer is deemed to have been made to all holders of the securities to be acquired as at the time at which the offer is received by the company. According to the Federal Law on Joint Stock Companies, an offer sent to a company must have a bank guarantee enclosed with it that sets out the guarantor's obligations to meet the acquirer's payment obligations. The guarantor's details and the bank guarantee conditions must be specified in the offer sent to the company. The bank guarantee must be effective for at least six months after the expiry of the relevant acceptance period.

According to the Federal Law on Joint Stock Companies, a person intending to make an offer must send that offer to the FSFM, which has the power to issue an order to bring the offer into compliance with the requirements set forth in the Federal Law on Joint Stock Companies. In the event that the offeror proposes to acquire securities that are traded on a stock exchange, the offer must be sent to the FSFM 15 days prior to its delivery to the company. If the securities to be acquired are not traded on a stock exchange, the offer must be sent to the FSFM on or before the date of its delivery to the company.

The board of directors of a company that receives an offer must make a recommendation with respect to such offer within 15 days after receipt of the offer. The company must send that recommendation, together with the offer in respect of which it is made, to all holders of the securities to be acquired.

The Federal Law on Joint Stock Companies provides that, during the acceptance period, the offeror may not acquire securities with respect to which it has made the offer on terms other than the terms specified in the offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Federal Law on Joint Stock Companies: the acceptance period may be no less than 70 days and no more than 90 days (in the case of voluntary public offers) or 80 days (in the case of compulsory public offers) from the date on which the offer was received by the company. The holders of the securities to be acquired may accept the offer by sending the offeror an application to sell their securities by mail, or by any other means provided for in the offer.

When a company receives an offer, decisions on certain important corporate issues (for example, the placement of additional securities; the approval of a transaction or a series of related transactions whose value exceeds 10 per cent. of the company's balance sheet assets as at the date of the company's last accounts; the approval of interested party transactions; and other issues specified in the Federal Law on Joint Stock Companies) shall be adopted only by a general meeting of the shareholders of such company. The competence of the general meeting of the company's shareholders is therefore extended as a result of the company receiving an offer.

Minority shareholder redemption/Squeeze-out

If as a result of either a voluntary or a compulsory public offer the acquirer, alone or with its affiliates, purchases more than 95 per cent. of the voting shares, it will be obliged to (i) notify all the other holders of the securities (within 35 days after the acquisition of voting shares above such threshold) of their right to sell their securities, and (ii) purchase the securities of each minority shareholder upon request. In turn, the acquirer will have the right to make a binding buy-out demand requiring the minority shareholders to sell their securities.

Dividends and Dividend Rights

Under the Federal Law on Joint Stock Companies, dividends may be declared and paid on shares of an open joint stock company only out of net profits (profits after taxation) calculated under Russian accounting principles, provided that:

- the share capital of such company has been paid up in full;
- the value of such company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of such company's share capital, such company's reserve fund and the difference between the liquidation value and the par value of such company's issued and outstanding preference shares, if any;
- such company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- such company is not, and will not become, insolvent as a result of the payment of the dividends; and
- other requirements of Russian legislation have been met, and Russian legislation imposes no further restrictions on the declaration and payment of dividends.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; or
- otherwise prohibited by the Russian legislation

The Federal Law on Joint Stock Companies and MMK's charter set out procedures for the payment of dividends by MMK, pursuant to which MMK may declare dividends based on results of its first quarter, six-month, nine-month and/or annual results.

Decisions to declare and pay a dividend on each class of shares, including ordinary shares, on the amount of any such dividend and the form of the payment thereof must be approved at a general shareholders' meeting by a majority vote. The amount of dividend to be paid is recommended to such general shareholders' meeting by a majority vote of the board of directors and the amount approved by such general shareholders' meeting may not be more than the amount recommended by the board of directors. A decision to pay dividends in respect of three-month, six-month and nine-month results must be taken within three months of the end of the relevant period. Such dividends are payable within one year of the date of the relevant decision. A decision to declare and pay annual dividends must be taken at the annual general shareholders' meeting and such dividends are payable by the end of the relevant year. Dividends are distributed to holders of MMK's shares as at the record date for the shareholders' meeting approving such dividends. For the purpose of compiling the list of shareholders entitled to receive dividends, a nominee shareholder is required to furnish information about the persons in whose interest such nominee shareholder holds shares.

Dividends are not paid on treasury shares.

Distributions to Shareholders on Liquidation

Under Russian law, the liquidation of a company results in the company ceasing to exist without its rights and obligations being transferred to other persons as legal successors. The Federal Law on Joint Stock Companies allows MMK to be liquidated:

- by a three-quarters majority vote at a general shareholders' meeting; or
- by a court decision.

Following a decision to liquidate MMK, the right to manage MMK's affairs passes to a liquidation commission that, in a voluntary liquidation, is appointed by a shareholders' meeting and, in an involuntary liquidation, is appointed by the court. MMK's creditors may file claims within a period to be determined by the liquidation commission but which must extend for at least two months from the date of publication of the notice of liquidation by the liquidation commission.

Under the procedure established by the Federal Law on Joint Stock Companies, after all the creditors' claims have been satisfied, the remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase under Russian law;

- payments of declared but unpaid dividends on preference shares and the liquidation value of the preference shares, if any; and
- payments and distributions to holders of ordinary and preference shares in proportion to their shareholdings.

Registration and Transfer of Shares

All shares of MMK are ordinary shares in registered form. Russian legislation requires that a joint stock company provide for a register of its shareholders to be maintained. A register of shareholders may be maintained by a company itself or by a specialised registrar. The Federal Law on Joint Stock Companies requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a specialised registrar. Ownership of registered shares is evidenced by entries made in such register or on the books of a licensed Russian depositary. Shareholders of MMK may obtain extracts from that share register maintained by a registrar or depositary certifying the number of shares that they hold. JSC Registration Company "STATUS", an independent registrar, with registered office at 109544, Moscow, ul. Dobrovolcheskaya, 1/64, operates and maintains the register of MMK's shareholders.

Purchases, sales or other transfers of shares are accomplished through registration in the share register or the registration of the transfer with a depositary if shares are held through a depositary. In the latter case, the depositary is considered the nominal holder of MMK's shares. The registrars and depositaries are not allowed to require any documents other than those expressly provided for by law in order to register a transfer of shares in the register or with a depositary. Any refusal by a registrar or a depositary to register the shares being transferred in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder is unlawful and may be disputed through the courts.

Exchange Controls

The Federal Law No. 173-FZ, "On Currency Regulation and Currency Control," which entered into force on 18 June 2004 empowers the Russian government and the CBR to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities, including GDRs, and domestic securities, including the ordinary shares, as well as certain types of settlements between residents and non-residents of Russia. However, as of 1 January 2007, most of the restrictions that were in place before, were abolished.

Russian companies must repatriate 100 per cent. of their receivables from the export of goods and services (with a limited number of exceptions covering, in particular, certain types of secured financing).

Remittance of Dividends, Interest or Other Payments to Non-Residents

The Federal Law dated 9 July 1999 No. 160-FZ "On Foreign Investments in the Russian Federation", as amended, specifically guarantees foreign investors the right to repatriate their earnings from investments in the Russian Federation.

Notification of Foreign Ownership

A foreign person or company acquiring shares in a Russian joint stock company must, in certain circumstances, notify the FSFM of such acquisition no later than five days after such acquisition and in the form and substance required by Russian securities legislation. As at the date of this Prospectus, no such notification requirement exists with respect to the shares of MMK.

Organisations that are taxpayers, and individuals registered as individual entrepreneurs, in the Russian Federation who acquire shares in a Russian joint stock company must notify the Russian tax authorities within one month after such acquisition. Accordingly, foreign persons registered as individual entrepreneurs in the Russian Federation and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month after such acquisition if they are already registered with the Russian tax authorities at the time of the acquisition.

Notification to the FSFM and Disclosure of Equity Interests

Pursuant to the Federal Law dated 22 April 1996 No. 39-FZ "On the Securities Market" (the "Federal Law on the Securities Market"), a shareholder who acquires ordinary shares in a Russian company must notify that company and the FSFM no later than five days after the acquisition by it of 5 per cent. or more of such company's ordinary shares, as well as after a subsequent acquisition or disposal of these shares such that the level of its holding of such company's ordinary shares passes the threshold of 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 50 per cent. or 75 per cent. of such company's ordinary shares. Holders of MMK's Ordinary Shares are required to file the relevant notification with the FSFM and MMK no later than five days after any of the above events has occurred. Upon receipt of the notification from a shareholder, MMK is required to publicly disclose the relevant information as a material event.

Liability of Shareholders

The Russian Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear the risk of loss of their investments only.

This general rule may not apply to shareholders who are capable of giving binding instructions or otherwise directing the business of a Russian joint stock company. Specifically, an investor may be held secondarily liable for MMK's debts in the event of its insolvency or bankruptcy if: (i) the investor is capable of giving binding instructions or otherwise directing the business of MMK; (ii) such insolvency or bankruptcy was caused by the investor's actions or omissions; and (iii) the investor knew in advance that such actions or omissions would result in the insolvency or bankruptcy of MMK.

In addition, the general rule on limited liability described in the first paragraph above may not apply when one company (the "effective parent") is capable of determining the decisions of another company (the "effective subsidiary").

If the effective subsidiary is a joint stock company, the effective parent bears joint and several liability for a transaction entered into by the effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for by the charter of the effective subsidiary or in a contract between the companies. If the effective subsidiary is a limited liability company, the effective parent bears joint and several liability if the effective parent caused the effective subsidiary to enter into the transaction (without regard to how the effective parent's ability to determine the decisions of the effective subsidiary arises).

An effective parent, a shareholder, a participant or any other person that is capable of determining the decisions made by an effective subsidiary may be held secondarily liable for such company's debts in the event of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, the effective parent, shareholder, participant or other person capable of determining its decisions will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions or omissions of such effective parent, shareholder, participant or other person; and (ii) such effective parent, shareholder, participant or other person knew in advance that such actions would result in the insolvency or bankruptcy of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent, shareholder, participant or other person capable of determining its decisions will be held secondarily liable if the effective subsidiary's insolvency or bankruptcy is caused by the wilful misconduct or negligence of such effective parent, shareholder, participant or other person.

Shareholders (other than the effective parent) of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if (i) the effective parent caused the effective subsidiary to do or omit to do any act that resulted in loss, and (ii) the effective parent knew in advance that such act or omission would result in loss. Participants (other than the effective parent) of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its fault caused the effective subsidiary to do any act that resulted in loss. In both cases, it does not matter how the effective parent's ability to make decisions for the effective subsidiary arises.

Alteration of Share Capital

Share Capital Increase

MMK's share capital may be increased by:

- issuing new shares; or
- increasing the nominal value of the outstanding shares.

According to the Federal Law on Joint Stock Companies and MMK's charter, a decision to increase the share capital by issuing additional shares must be taken by unanimous vote of the board of directors, except where the decision is one that must be taken by MMK's general shareholders' meeting. A decision on the issuance of shares, or securities convertible into shares, by closed subscription, or an issuance by open subscription of ordinary shares, or securities convertible into ordinary shares, constituting more than 25 per cent. of the number of issued ordinary shares, requires a three-quarters majority vote by a general shareholders' meeting. Increasing the nominal value of outstanding issued shares requires a majority vote at a shareholders' meeting.

New shares may only be issued if there are sufficient authorised but unissued shares provided for by MMK's charter. The authorisation of shares above the number of authorised shares provided for by MMK's charter necessitates an amendment to the charter, which requires a three-quarters majority vote at a general shareholders' meeting.

The Federal Law on Joint Stock Companies requires that, when determining the placement price of a company's shares, the board of directors must set the price on the basis of the market price (such price not being less than the nominal value of the shares). The board of directors may, but is not required to, involve an independent appraiser to set the placement price of the shares. In cases when the price for the company's shares is regularly published, the board of directors is required to take into account such price. The placement price for existing shareholders exercising a pre-emption right to purchase shares may be less (but in any event no more than by 10 per cent.) than the price paid by third parties.

The Federal Law on the Securities Market and securities regulations set out detailed procedures for the registration and issue of shares of a joint stock company, including:

- the adoption of a decision on an increase of share capital by the placement of additional shares;
- the adoption of a decision on a share issue;
- the registration of a share issue with the FSFM;
- the placement of the shares;
- the registration of the report or filing of the notification of the results of the share issue; and
- public disclosures at the necessary stages of the issue.

Share Capital Reduction and Share Buy-Backs

The Federal Law on Joint Stock Companies does not allow a company to reduce its share capital below the statutory minimum level. As at the date of this Prospectus, the minimum share capital for an open joint stock company was RUB 100,000. MMK's charter requires that any decision to reduce its share capital, whether through repurchase and cancellation of shares or a reduction in the nominal value of the shares, may be made by a simple majority vote at a general shareholders' meeting. Additionally, within 30 days of a decision to reduce MMK's share capital, MMK must publish a notice of the decision and must issue written notice to its creditors. MMK's creditors will then have the right to demand, within 30 days of publication or receipt of MMK's notice, the early termination or early fulfillment of all obligations (including the repayment of all amounts due to them), as well as compensation for damage.

The Federal Law on Joint Stock Companies allows the shareholders or the board of directors, depending on the particular case, to authorise the repurchase of up to 10 per cent. of MMK's shares in exchange for cash. The repurchased shares must either be resold within one year of their repurchase or the shareholders must cancel those shares and then either decrease the share capital or increase the nominal value of the remaining shares to preserve the total amount of share capital.

The Federal Law on Joint Stock Companies allows MMK to repurchase its shares only if, at the time of repurchase:

- MMK's share capital has been paid up in full;
- the value of MMK's net assets is not less (and would not become less as a result of the proposed repurchase) than the sum of MMK's share capital, the reserve fund and the difference between the liquidation value and the nominal value of MMK's issued and outstanding preference shares, if any;
- MMK has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- MMK is not, and will not become, insolvent as a result of the repurchase;
- MMK has paid all declared and unpaid dividends (for decrease of nominal value of shares); and

- other requirements of Russian legislation have been met.

Russian legislation provides that MMK's shareholders may demand repurchase of their shares if they voted against, or did not participate in, the voting on any of the following events:

- the reorganisation of MMK;
- any amendment to MMK's charter or approval of a new edition of MMK's charter which limits the rights of these shareholders; or
- the approval of a major transaction subject to the provisions of the Federal Law on Joint Stock Companies.

MMK may use up to 10 per cent. of its net asset value for share repurchases requested by shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 per cent. of MMK's net asset value, MMK must repurchase from each shareholder exercising the right to request repurchase a number of shares proportionate to the number of shares specified in the request of that shareholder.

Interested Party Transactions

Under the Federal Law on Joint Stock Companies, certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of MMK. "Interested party transactions" include transactions involving a member of the board of directors or a member of any executive body of MMK (including MMK's chief executive officer and/or MMK's managing organisation); any person that owns, together with any affiliates, at least 20 per cent. of MMK's issued voting stock; or any person who is able to direct the actions of MMK, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates, is/are:

- a party to, or beneficiary of, a transaction with MMK, whether directly or as a representative or intermediary;
- the owner of at least 20 per cent. of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with MMK, whether directly or as a representative or intermediary; or
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with MMK, whether directly or as a representative or intermediary, or a member of any management body of a management organisation of such a company,

or in other cases provided by Russian legislation.

The Federal Law on Joint Stock Companies requires that an interested party transaction by a company with more than 1,000 shareholders holding voting shares be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For the purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, (i) the general director, (ii) a member of any executive body, (iii) an affiliate of the company except for being its director, (iv) a member of any management body of the company's management organisation or (v) a person whose close relatives held positions on management bodies of the company or the managing company or were sole manager of the company. For companies with 1,000 or fewer shareholders holding voting shares, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2 per cent. or more of the balance sheet value of the company's assets determined under RAS;
- the transaction or a number of interrelated transactions involves the placement by subscription or secondary market sale of shares exceeding 2 per cent. of the company's issued ordinary shares and ordinary shares into which issued convertible securities may be converted;
- the transaction or a number of interrelated transactions involves the placement by subscription of issued securities that may be converted into ordinary shares constituting more than 2 per cent. of the company's issued ordinary shares and ordinary shares into which issued convertible securities may be converted;
- for companies with 1,000 or fewer shareholders holding voting shares, the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or

- for companies with more than 1,000 shareholders holding voting shares, all the members of the board of directors of the company are interested parties, or none of them is an independent director.

The approval of interested party transactions is not required in certain instances provided by the Federal Law on Joint Stock Companies, such as if the transactions are connected with the execution of pre-emption rights of existing shareholders to purchase newly issued shares or securities converted into shares, or if the transactions are connected with the repurchase, whether mandatory or not, by the company of its issued shares.

Any interested party transaction must be approved prior to its execution. Any interested party transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim brought by the company or any of the company's shareholders.

Major Transactions

The Federal Law on Joint Stock Companies defines a "major transaction" as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal, of property worth 25 per cent. or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions in connection with the placement through a subscription of ordinary shares, or securities convertible into ordinary shares. Major transactions involving assets worth from 25 per cent. to 50 per cent. of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing such approval, a simple majority vote of a general shareholders' meeting. Major transactions involving assets worth in excess of 50 per cent. of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders present at a general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim brought by MMK or any of MMK's shareholders.

Disclosure of Information

Russian securities regulations require MMK periodically to make the following public disclosures and filings:

- disclosing on MMK's Internet site and filing with the FSFM quarterly reports containing information about MMK, its shareholders and registrar, the structure of MMK's corporate bodies, the members of the board of directors, the branches and representative offices of MMK, MMK's shares, important developments during the reporting quarter and other information about MMK's financial and business activities;
- disclosing on MMK's Internet site, on a newswire and filing with the FSFM certain information about material changes in MMK's financial and business activities, changes in the composition of the board of directors, a change of MMK's general director, and other material changes concerning MMK, or material events;
- disclosing on MMK's Internet site, on a newswire and in certain cases disclosing through other public media information on each stage of a new issue of MMK's securities;
- disclosing changes in shareholding and ownership as required by applicable legislation;
- disclosing MMK's annual reports, charter, internal regulations and financial statements prepared in accordance with RAS on MMK's Internet site;
- disclosing on MMK's Internet site and filing with the FSFM on a quarterly basis a list of persons who are affiliates of MMK; and
- filing and/or disclosing other information as required by applicable Russian securities legislation.

As at the date of this Prospectus, MMK uses the newspapers *Magnitogorskiy rabochiy* and *Magnitogorskiy metall* for disclosures requiring publication in the press such as the publication of information about material events and new issues of MMK's securities.

MMK is also obliged to disclose material events and some other information through certain Russian newswire services (currently Interfax and AK&M) prior to disclosing such information by any other means.

The Board of Directors has adopted internal regulations on information policy and on insider information. These regulations set forth, among other things, procedures for managing information within MMK.

REGULATION OF THE STEEL INDUSTRY IN RUSSIA

General

The Russian Federation has not enacted any specific legislation governing the operation of the steel industry and the business of steel-manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety, environmental and other rules.

On 5 September 2002, the Government of the Russian Federation approved the "Plan of Measures for Development of the Russian Steel Industry until 2010" (the "Plan"). The Plan proposes measures supporting voluntary certification of steel products and promotion of innovation in the industry, reduction of import duties on high-tech machinery, financing of research and development in the steel industry, investment in new technologies and professional development and social protection of the industry's workforce.

The Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended (the "Technical Regulation Law"), introduced new rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

Federal, Regional and Local Regulatory Authorities Governing the Steel Industry

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Energy and the Ministry of Natural Resources. The Ministry of Industry and Energy is responsible for the development of governmental policy in the industry (for example, on attracting investment, taxation, the support of scientific research and employment). The Ministry of Natural Resources regulates the licensing of subsoil resources, exploration and geological prospecting.

The Ministry for Economic Development and Trade of the Russian Federation regulates Russian exports and imports of steel products and co-ordinates inter-governmental negotiations relating to export and import regulations.

The federal ministries in the Russian Federation are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to the MMK Group's activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety of steel and iron-making, coking and chemical facilities as well as safety rules relating to iron ore extraction and environmental rules. It also issues licences for certain industrial activities and activities relating to safety and environmental protection.
- The Federal Service for Customer Protection and Human Welfare, which controls and supervises the sanitary and epidemiological welfare of the population of the Russian Federation and protects consumer customer rights.
- The Federal Agency for Water Resources (subordinate to the Ministry of Natural Resources), which is responsible for supervising the use and protection of water resources.
- The Federal Service for the Supervision of the use of Natural Resources (subordinate to the Ministry of Natural Resources), which controls and supervises the use and protection of natural resources.
- The Federal Agency for Subsoil Use (subordinate to the Ministry of Natural Resources), which organises auctions and issues licences for subsoil use and approves design documentation for subsoil production activities.
- The Federal Agency for Technical Regulation and Metrology (subordinate to the Ministry of Industry and Energy), which determines and oversees levels of compliance with obligatory general and industrial standards.
- The Federal Customs Service (subordinate to the Government of the Russian Federation), which is responsible for the development of state customs policies and regulating customs procedures.
- The Federal Antimonopoly Service (subordinate to the Government of the Russian Federation), which controls and supervises the compliance with antitrust legislation of commodities markets and financial markets and sets the relevant procedures.

Aside from the above federal executive bodies, which are directly involved in regulating and supervising the steel sector in the Russian Federation, there are a number of other federal regulators that, together with their structural sub divisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional authorities with jurisdiction over the specific area in which a steel-producing enterprise is located have substantial authority. Regional and local authorities usually control regional and local land-use allocations.

Licensing of Operations

The MMK Group is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law "On Licensing of Certain Types of Activities" of 8 August 2001, as amended (the "Licensing Law"), as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. In particular, the MMK Group is required to obtain licences and permits to carry out certain activities, including, *inter alia*:

- the use of subsoil, which is described in more detail in "—Subsoil Licensing";
- geodesic works;
- the collection, utilisation, deactivation, transportation and disposition of hazardous waste;
- the storage, utilisation and distribution of explosives for industrial use (three different licences);
- the operation of hazardous industrial facilities (explosives, chemicals and fire);
- geographical surveying operations;
- construction;
- medical activities;
- educational services; and
- transportation activities.

These licences are usually issued for a period of five years and may be extended upon application by the licensee. Licences for the use of natural resources are generally issued for longer periods. Upon expiration, a licence may be extended upon application of the licensee, but usually subject to prior compliance with regulations. Certain types of licences may also have unlimited terms.

As part of the MMK Group's obligations under licensing regulations and the terms of its licences and permits, the MMK Group must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing

In the Russian Federation, mining minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The licensing regime for the use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Law of the Russian Federation "On Subsoil" No. 2395-1 dated 21 February 1992, as amended (the "Subsoil Law"). The exploration and production of mineral resources is also regulated by various rules, procedures and regulations including the Procedure for Subsoil Use Licensing adopted by Resolution of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended (the "Licensing Regulation").

There are two major types of licences: (1) an exploration licence, which is a non-exclusive licence granting the right of geological exploration and assessment within the licence area, and (2) a production licence, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined exploration and production licences, which grant the right to explore, assess and produce minerals from the licence area.

Currently production licences and combined exploration and production licences are awarded by tender or auction conducted by special commissions of the Federal Agency for Subsoil Use. While such auction or tender may involve a representative of the relevant region, the 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 published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone. Holders of licences issued by regional authorities usually obtain the right to use the land surrounding the licence area.

There are two major types of payments with respect to the use of subsoil: (1) regular and certain "one off" payments for subsoil use under the Subsoil Law and (2) the mineral extraction tax under 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 a percentage of the value of minerals extracted.

The term of the licence is set forth in the licence. Prior to January 2000, exploration licences had a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences have a maximum term of five years; production licences are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the licence may be issued for a term of one year; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments do not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided the licencee complies with the licence terms. The term of a subsoil licence runs from the date the licence is registered with the Federal Agency for Subsoil Use.

Issuance of subsoil licences

Subsoil licences are generally issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation set out the major requirements relating to tenders and auctions.

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 the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In order to extend a subsoil licence, a company must file an application with the federal authorities to amend the licence. The Resolution of the Ministry of Natural Resources No. 439-R, dated 31 October 2002, requires that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the licence; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended licence.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include (1) its compliance with the licence terms and conditions; and (2) its management's experience and expertise relating to subsoil issues, including experience in amending licences.

Maintenance and termination of subsoil licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement between the Federal Agency for Subsoil Use 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 extracting annually an agreed target amount of reserves; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the local authorities; submitting on a regular basis formal progress reports to regional authorities; making all obligatory payments when due and fulfilling the specified commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition which is adequate for future use. Most of the conditions set out in a licence are based on mandatory rules contained in Russian law, and licence agreements are generally not negotiable. MMK expects that the MMK Group will be able to meet the commitments set forth in these licensing agreements.

If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights can be limited, suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area or upon the occurrence of certain emergency situations. The rights of a subsoil user may also be limited, suspended or terminated for violations of material licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project (as opposed to the levels set up in the licensing agreement) would also be likely to constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limitation, suspension or termination of the rights of a subsoil user.

Licences may be transferred (reissued) only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50 per cent. ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Land Use Rights

Land use rights are needed and granted only for the portions 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 of the Russian Federation of 25 October 2001, as amended (the "Land Code"), companies generally have the rights of ownership or leasing with regard to land in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which can sell or lease land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to have purchased the land from, or to have entered into a lease agreement relating to the land with, the relevant federal, regional or municipal authority owner of the land by 1 January 2008.

Environmental Considerations

The MMK Group is subject to laws of the Russian Federation, regulations and other environmental requirements, including those governing the discharge of substances into the air and water, treatment of production wastes and hazardous substances, maintenance of contaminated sites and wildlife protection. The main legal act regulating environmental protection in the Russian Federation is the Federal Law "On Environmental Protection" No. 7-FZ of 10 January 2002, as amended (the "Environmental Protection Law").

Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. State environmental authorities have established standards relating to the permissible impact on the environment and, in particular, limits for emissions in the air and water, amounts of waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in legislative acts and regulations, are assessed on a sliding scale in accordance with limits imposed by statutory bodies: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In 2005 and 2006, respectively, the MMK Group incurred such fees in the amount of RUB 68.8 million and RUB 64.3 million.

Ecological approval

Any construction and reconstruction projects that may affect the environment are required to pass a state ecological examination in accordance with the Federal Law “On Ecological Expert Examination” No. 174-FZ of 23 November 1995, as amended. In addition, any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law “On Environment Protection” No. 7-FZ of 10 January 2002. Accordingly, the MMK Group receives on an annual basis a set of permissions for the admissible level of air and water contamination that the MMK Group can emit during such year and the amount of waste disposal (broken down by each type of waste) that can be undertaken on each specially designated site during such year. These permissions are the basis for the payment of fees for environmental pollution. In the event that the MMK Group was to exceed these prescribed limits, the MMK Group would be required to pay increased amounts for environmental pollution and in some cases penalties may be charged. Other consequences of conducting operations that may cause damage to the environment without state ecological approval are described in “—Environmental liability”.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources the Federal Service for the Supervision of Consumer Rights Protection and Human Welfare, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometeorology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The Government of the Russian Federation and Ministry of Natural Resources are responsible for co-ordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative liability and employees in some circumstances may also be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. The MMK Group has, in the past, been subject to enforcement actions, fines and, in some cases, court actions in relation to breaches of environmental regulations. Although none of these court actions and fines has had, individually or in aggregate, a material adverse effect on the MMK Group, its business and results of operations, there can be no assurance that any such court actions or fines will not have a material effect on the MMK Group in the future.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Industrial Safety

Due to the nature of the MMK Group's business, much of its activity is conducted at industrial sites by large numbers of workers, and labour protection is of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ of 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where fluxes of ferrous and non-ferrous metals as well as alloys based on such fluxes are produced and where certain types of mining are done. The Safety Law also contains a list of hazardous substances and extends to facilities and sites where these substances are produced, used and stored.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

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

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia, which came into effect on 1 February 2002, as amended (the "Labour Code"). In particular, they must limit access to such sites to specialists complying with the relevant qualification and medical requirements, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as an industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility. Dangerous industrial facilities must be registered in the state register of dangerous industrial facilities maintained by the Federal Service for Environmental, Technological and Nuclear Supervision. The registration is temporary and must be renewed every five years.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Anti-monopoly Approvals of Acquisitions

As of 26 October 2006 the new Federal Law on the Protection of Competition (the "Competition Law") came into effect. A summary of the relevant provisions of the Competition Law is set out below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

Under the Competition Law, an investor or several entities constituting "a group of entities and/or individuals" should obtain a prior clearance from the Federal Antimonopoly Service of the Russian Federation ("FAS") in the following cases in particular:

- for the initial acquisition of more than 25 per cent. of the voting shares in a joint stock company, or 33.3 per cent. of the participation interest in a limited liability company, provided that the acquirer did not have any shares (participation interest) in such company or had less than the above threshold before the acquisition. This rule does not apply to the founders acquiring shares or participation interests during the incorporation of such company, provided that such founders make cash contributions;
- for the subsequent acquisition of the voting shares in a joint stock company or participation interests in a limited liability company such that the level of their holding of the company's shares (participation interest) passes the threshold of 50 per cent. or 75 per cent. of the voting shares in a joint stock company or 50 per cent. or 66.6 per cent. of the participation interests in a limited liability company;
- for the acquisition of production or intangible assets if the book value of such assets exceeds 20 per cent. of the aggregate book value of the production and intangible assets of the seller (transferor); or
- for the acquisition of rights to determine the conditions of the business of another entity.

Prior FAS clearance is required in the above cases if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUB 3 billion or (ii) the aggregate value of revenues of the same entities in the last calendar year exceeds RUB 6 billion and, simultaneously, the aggregate value of assets of the target and the companies of its group exceeds RUB 150 million or (iii) alternatively, one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35 per cent.

Post-completion notification, instead of prior clearance, is required in the above cases if (i) either the aggregate balance value of assets of the acquirer and the target and the companies of their respective groups exceeds RUB 200 million or (ii) the aggregate value of revenues of the same entities in the last calendar year exceeds the same amount and, simultaneously, the aggregate value of assets of the target and the companies of its group exceeds RUB 30 million or (iii) alternatively, one of the entities mentioned above is entered in the Russian register of businesses with a market share exceeding 35 per cent. Such notification must be made by the acquirer no later than 45 days after the date of such execution.

Intra-group transfers are no longer subject to prior approval by the FAS. However, intra-group transfers may be subject to post-completion notifications. For the purposes of a notification, one of the parties should file a "list of its group members" with the FAS not later than one month prior to completion. The list should specify the reasons for including each of the group members in the group.

The Competition Law expressly provides for its extraterritorial application to transactions which are made outside of Russia but lead, or may lead, to the restriction of competition in Russia and relate to assets located on the territory of Russia or to the shares (participation interests) in Russian companies or rights in relation to such companies.

Regulation of Competition

As part of its competition-monitoring activities, the FAS keeps a register of companies that have more than a 35 per cent. share in a particular goods market. As a major Russian steel producer, MMK appears on the register in relation to certain types of steel products.

The FAS may rule that certain companies that appear on the register have a dominant position in the market. Such companies are subject to more rigorous governmental regulation including the imposition of price controls.

The FAS ruled that MMK must maintain the price of products it sells to pipe plants at a competitive level for a period of three years beginning from July 2001. MMK, together with Severstal, was subject to a case brought by the FAS in connection with allegations of price fixing in the pipe industry. On 14 January 2004, the FAS (i) found MMK and Severstal guilty of violating anti-monopoly legislation by acting in concert in respect of the pricing of steel strips sold to pipe mills for the production of oil and gas pipes; and (ii) obliged both companies: (a) to stop such practices and to prevent any such violations in the future; and (b) for the next three years, to provide the FAS on a quarterly basis with detailed information on the pricing of such strips together with the economic rationale for any increase in prices of more than 5 per cent. MMK and Severstal filed an appeal against the decision of the FAS in the Moscow Arbitration Court, which ruled in favour of MMK and Severstal. This decision was confirmed by a resolution of the appeals instance and resolution dated 14 December 2004 issued on 14 December 2004 by the Federal Arbitration Court of Moscow District, acting as a cassation court.

Trade Barriers and Anti-Dumping Regulations

Steel-producing countries generally view their steel industries as strategically important and therefore requiring protection from foreign competition. In addition, the governments of some emerging economies employ non-market methods to try to protect and develop their steel industries, and, while those governments seek to achieve the desired balance in their economies between production levels and product mix and consumption, they may resort to protectionist measures against imports from third countries.

Exports of steel from the Russian Federation are primarily regulated by the Federal Law "On Fundamentals of State Regulation of Foreign Trade Activities" No. 164-FZ dated 8 December 2003 and bilateral agreements between the Russian Federation and its trading partners, including the United States and the EU, which establish minimum prices and/or quotas for the export from the Russian Federation to those markets of certain types of steel products. Russian exporters of steel products to the United States and the EU are required, in accordance with the bilateral agreements between the Russian Federation and the United States and the EU, respectively, to obtain a licence for those exports from the Russian Ministry for Economic Development and Trade.

General

In general, the recent trend worldwide has been for the relaxation of import restrictions. The largest importers of the MMK Group's products are countries in the EU and North America. Restrictive measures on imported steel introduced by certain Latin American countries have not affected the MMK Group's business adversely, as the MMK Group's exports have, for geographical reasons, been principally directed at markets in the EU and North America.

MMK believes that, due to the Russian Federation being granted "market economy" status by the EU and various countries, including the United States, South Africa and Brazil, it has become relatively easier for Russian steel producers to defend their interests in the course of anti-dumping and other trade proceedings, and MMK expects this trend to continue if the Russian Federation accedes to the WTO in 2007.

United States

On 6 March 2002, the United States introduced safeguard measures in respect of steel imports, which resulted in the imposition of additional import duties (ranging from 8 per cent. to 30 per cent.) on steel products imported into the United States and restricted the import into the United States of most high value-added products, including those imported from the Russian Federation. These U.S. measures resulted in a "domino" effect of similar safeguard measures in other regions, including the EU, Czech Republic, Brazil, Canada, Mexico, Venezuela, Chile, Colombia, Argentina, Thailand, India, Iran and China, each of which introduced measures to protect their own markets from "excessive" steel unable to enter the U.S. market and led to a substantial decrease in sales to the United States by Russian steel producers during 2002 and 2003. On 5 December 2003, the United States revoked its 2002 safeguard measures.

As a result, Russian steel producers, including MMK, are currently able to operate in this market in accordance with the following two agreements, which limit Russian exports of metal products:

- a suspension agreement on hot-rolled cut-to-length steel plate, which establishes minimum prices without quotas based on information about the costs and expenses of Russian exporters. Russian exporters concluded this market economy cost-based agreement with the U.S. Department of Commerce on 20 December 2002, replacing the non-market economy agreement that had been in force since 1997;
- a suspension agreement on hot-rolled flat carbon-steel products, which established minimum prices and quotas. The quota for 2006 was 814,610 metric tons (of which MMK was allocated 320,471 metric tons). The quota for 2005 was 792,055 metric tons (of which MMK was allocated 299,721 metric tons). While these quotas have generally been enough to satisfy Russian producers' needs, MMK is restricted on sales of hot-rolled coils and thin sheets in the U.S. market;

- in relation to steel products such as cold-rolled, galvanised and semi-finished steel and long products, Russian exporters have been operating in the U.S. market without any restrictions on the import of these products since the expiry of the Comprehensive Steel Agreement on 12 July 2004; and
- the Russian Federation was granted "market economy" status by the United States with effect from 1 April 2002.

European Union

On 27 June 2005, the Russian Federation and the European Union entered into an agreement regulating trade in certain steel products, which is valid until 31 December 2006. This agreement established a quota for the export of Russian metals into the European Union and superseded the previous quota system for the export of Russian metals, which had been in place since 1996 in the form of a bilateral agreement.

Quotas for Export of Russian Steel into the EU, 2005, 2006 and 2007

	Year ended Products		
	2005	**2006**	**2007***
		(metric tons)	
SA. Flat products			
SA1. Coils	908,268	930,975	930,975
SA2. Heavy plate	190,593	195,358	195,358
SA3. Other flat products	389,741	399,485	399,485
SA4. Alloyed products	97,080	99,507	99,507
SA5. Alloyed quarto plates	21,509	22,047	22,047
SA6. Alloyed cold-rolled and coated sheets	100,095	102,597	102,597
SB. Long products			
SB1. Beams	44,948	46,072	46,072
SB2. Wire rod	172,676	176,993	176,993
SB3. Other long products	292,376	299,685	299,685
Total	**2,217,286**	**2,272,719**	**2,272,719**

* Due to absence of any agreement between Russia and the European Union in respect of quotas for 2007, the European Union has put into force autonomous quotas effective until the conclusion of a new agreement (expected to be concluded in May 2007).

On 31 October 2003, the European Union terminated its anti-dumping investigation against imports of hollow sections originating from the Russian Federation and Turkey, without the imposition of any trade restrictions.

The Russian Federation was granted "market economy" status by the European Union in November 2002. Recently, the Russian Government approved anti-dumping duties on nickel-coated steel imported into Russia from the European Union. If the European Union imposes duties, tariffs on other measures in response to this, MMK's exports to the European Union could be significantly adversely affected.

Anti-Dumping Proceedings

The most significant anti-dumping proceedings against Russian steel exporters were initiated between 1996 and 2001 by the United States in respect of a wide range of hot-rolled and cold-rolled steel products. MMK actively participated, along with other Russian steel producers, in all those proceedings. In general, the granting of "market economy" status to the Russian Federation by the United States in April 2002 has led to a reduction in the anti-dumping measures imposed in the U.S. market, benefiting, in particular, the ferrous metal industries. For example, the United States terminated the anti-dumping proceedings against imports of cold-rolled steel products, which it initiated on 21 June 1999 and 18 October 2001, and, since April 2002, MMK has incurred lower rates of duty in anti-dumping proceedings compared to rates from previous periods, for example, the 184 per cent. anti-dumping duty for Russian hot-rolled steel that the United States imposed in 1999. During 2004 and 2005, MMK participated in the sunset review of anti-dumping duty measures against Russian hot-rolled steel in the United States. Following this review, the United States decided on 14 April 2005 to retain these measures.

In 2004 and 2005, the following key decisions were made regarding Russian steel exporters by foreign government authorities:

- Expiration of the U.S.-Russian Federation Comprehensive Steel Agreement, which established quotas on various types of steel products such as cold-rolled, galvanised and semi-finished steel and long products, on 12 July 2004. Since that time, MMK and other Russian exporters have operated in the U.S. market without any restrictions on these products.
- Termination of anti-dumping measures against hot-rolled and cold-rolled products in Canada.
- Termination of anti-dumping measures against electrical steel products in China.
- Suspension of anti-dumping measures against cold-rolled steel products in China.
- Termination of anti-dumping measures against cold-rolled steel products in South Africa and cold-rolled and long steel products in Colombia.
- Opening of U.S. cut-to-length market through the establishment of minimum prices by the U.S. Department of Commerce, as the result of co-operation between the Department and MMK.
- Possibility of the export of new grades of hot-rolled products within the framework of the U.S.-Russian Federation Suspension Agreement on hot-rolled flat carbon-steel products.

Currently, there are relatively few trade restrictions in force against exports from the Russian Federation in countries such as Venezuela, Colombia, Mexico, Argentina, Peru, Thailand and South Africa. These restrictions did not have and are not expected to have a material effect on the MMK Group's business.

Meanwhile, a number of anti-dumping duty measures against Russian steel products expired after being in force for five years, including measures relating to grain-oriented electrical steel in China and cold-rolled steel in Colombia.

The MMK Group, along with other Russian steel producers, continues to participate in those proceedings and reviews that it regards as important to its business. MMK intends to continue to participate actively in all intergovernmental consultations relating to Russian steel exports to the United States, the EU and other international markets.

Employment and Labour

Labour matters in the Russian Federation are primarily governed by the Labour Code.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. 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 the 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 the specific grounds enumerated 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 incompetence;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or 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 protections for specified categories of employees. For example, subject to certain exceptions like liquidations of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a 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 Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally 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. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform work in harmful and/or dangerous conditions may be entitled to additional paid vacation ranging from three to 36 (24 in the metallurgical industry) calendar days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, subject to certain conditions, the retirement age for males who have worked in harmful and/or dangerous conditions for at least 10 years, and females who have worked in harmful and/or dangerous conditions for at least seven years and six months, is 50 years and 45 years, respectively,

Salary

The minimum salary in Russia, as established by federal law, is RUB 1,100 from 1 May 2006. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in the Russian Federation. In this regard, MMK's management routinely interacts with trade unions, in particular the Mining and Metallurgical Trade Union, in order to ensure the appropriate treatment of employees and the stability of its business. See "Business—Employees".

The activities of trade unions are generally governed by the Federal Law "On Trade Unions, Their Rights and Guarantees of Their Activity" No. 10-FZ of 12 January 1996, as amended (the "Trade Union Law") and the Labour Code of the Russian Federation.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which co-ordinate activities of trade unions throughout the Russian Federation, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;

- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian law requires that companies co-operate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees being members of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

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 to suspend work if there is an immediate threat to the lives or health of employees. 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. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("GDRs") represented by this certificate are each issued in respect of thirteen Ordinary Shares of par value RUB 1 each (the "Shares") in Open Joint Stock Company MMK (the "Company") pursuant to and subject to an agreement dated 14 December 2006, and made between the Company and The Bank of New York in its capacity as depositary (the "Depositary") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Bank Eurasia as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to ING Bank Eurasia or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs while in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.

1 Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or the Russian Federation of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in the Russian Federation of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement (which is described in the following paragraph) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (which is described in the second following paragraph) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate, is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

The Depositary may also refuse to accept Shares if this would cause the number of Deposited Shares to exceed a number of Shares representing up to 35 per cent. (or such other percentage as may be agreed by the Company and the Depositary) of the Company's issued share capital from time to time.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement.

1.8 The Depositary shall accept for deposit Shares deposited as part of the Offering prior to filing with the FSFM of the Placement Notification (with respect to the Shares in the Offering) or registration with FSFM of the Placement Report, as the case may be (with respect to any subsequently deposited new Shares by the Company). Prior to written notice from the Company that the Placement Notice has been filed with the FSFM or the Placement Report has been registered with the FSFM, as the case may be, notwithstanding anything in these Conditions to the contrary: (i) the Depositary shall not, except as specifically described in the next succeeding paragraph, deliver any Shares pursuant to Condition 18 hereof and shall not vote, or cause to be voted, Deposited Shares; (ii) Holders shall not be entitled to give voting instructions, as contemplated by Condition 12 hereof; (iii) the only GDR Certificates issued hereunder shall be the Master GDRs certificates; and, (iv) notwithstanding Condition 1, Holders shall not be entitled to withdraw any Shares.

In the event that a Placement Notification is not filed with the FSFM, in respect of the Shares deposited as part of the Offering, within 30 calendar days of the date of completion of the placement of the Shares by open subscription as such date is defined in the decision on issuance of such shares registered with the FSFM or, in respect of any subsequent issue of such Shares, within 30 calendar days of the date of completion of the placement of the Shares as such date is defined in the relevant decision on issuance of such shares registered with the FSFM, as the case may be, or such other time as may be agreed between the Company and the Joint Global Co-ordinators (in respect of the Shares in the Offering only) or the Depositary (in respect of any other new Shares) or any new Shares are to be cancelled, whether or not a Placement Report in respect of such Shares has been registered or a Placement Notification is filed, the Company will give written notice of this to the Depositary and upon such written notice being given, the proceeds of the placement of the Shares shall be delivered to the Depositary and from the time of its receipt of such proceeds the GDRs will represent the right to receive a proportional interest in the funds so received. The GDRs will be cancelled by the Depositary upon distribution of the proportional interests in the funds so received, less any fees and expenses due to the Depositary, converted (if necessary), and distributed to the Holders.

2 Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A or if notified in writing by the Company that the Shares are required to be registered under the Securities Act and have not been so registered. The Depositary may also refuse to accept Shares if this would cause the number of Deposited Shares to exceed a number of Shares representing up to 35 per cent. (or such other percentage as may be agreed by the Company and the Depositary) of the Company's issued share capital from time to time. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3 Transfer and Ownership

The GDRs are in registered form, each corresponding to 13 Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary, the Custodian and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act").

4 Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5 Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6 Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7 Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv)

(a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "Primary GDR Rights Offering"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("Additional GDR Rights") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "Instruction Date") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("Additional GDR Rights Requests") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "Maximum Additional Subscription") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("Unsubscribed Rights"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in United States dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Russian counsel and U.S. counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be obligated to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8 Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9 Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10 Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11 Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the Russian Federation in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12 Voting Rights

12.1 Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to Deposited Shares subject to and in accordance with the terms of this Condition 12 and Clause 5 of the Deposit Agreement. The Company will notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company for the Shares or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Deposited Shares.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that the relevant portion of the Deposited Shares will be voted for and the relevant portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received from Holders.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Russian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Russian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received. If no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary by a Holder or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall have no obligation to, and shall not, exercise any voting rights attaching to such Deposited Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall appoint the Custodian or any other person designated by the Depositary as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless (i) it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Russian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion, and (ii) it has not received that opinion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 and Clause 5 of the Deposit Agreement as each may be amended from time to time in order to comply with applicable Russian law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise any right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

12.10 Voting will be restricted as set out in Condition 1.8.

13 Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14 Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of the Russian Federation or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall, subject to all applicable laws, not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter or facsimile transmission and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the Board of Directors or the Management Board of the Company or by a person duly authorised by the Board of Directors or the Management Board of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. The Depositary shall exercise reasonable care in the selection of any such delegate and any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall be required to provide the services delegated or sub-delegated to it in substantially the same manner as such services are required to be given under these Conditions, and the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, subject to applicable laws, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

14.21 Nothing in these Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary.

15 Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16 Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution; and

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.$0.05 or less per GDR;

(vii) a fee of U.S.$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17 Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, inter alia, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18 Listing

The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List maintained by the Financial Services Authority (the "Official List") and admission to trading on the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority or the London Stock Exchange in connection therewith. In the event that the listing on the Official List and admission to trading on the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on such other internationally recognised stock exchange in Europe.

19 The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Russia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20 Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21 Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22 Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23 Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the Financial Times).

24 Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

(i) in respect of the financial year ended on 31 December 2006 and in respect of each financial year thereafter the consolidated balance sheets as at the end of such financial year and the consolidated statements of income and cash flows for such financial year in respect of the Company, prepared in conformity with U.S. GAAP or IFRS and reported upon by independent public accountants selected by the Company, as well as any other financial information that the Company is required to publish under applicable law or stock exchange regulations, as soon as practicable (and in any event within 180 days) after the end of such year; and

(ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than one month after the end of the period to which they relate.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25 Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26 Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27 Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28 Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company agrees to irrevocably appoint, within a reasonable period of time following signing of the Deposit Agreement and, in any event, before the closing date for the initial issuance of the GDRs, Hackwood Secretaries Limited, as its agent in England, to receive service of process in any Proceedings in England based on the Deed Poll and agrees to appoint, within a reasonable period of time following signing of the Deposit Agreement and, in any event, before the closing date for the initial issuance of the GDRs, CT Corporation, a WoltersKluwer business, as its agent in New York, to receive service of process in any Proceedings in New York, or such other agents as are acceptable to the Depositary. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "Dispute") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully co-operate with the Depositary in connection with such litigation, arbitration or Proceeding.

The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

Upon issue, the GDRs will be evidenced by a single Regulation S Master GDR and a single Rule 144A Master GDR, each in registered form. The Regulation S Master GDR has been registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London Branch, as common depositary for Clearstream, Luxembourg and Euroclear, and the Rule 144A Master GDR has been registered in the name of Cede & Co. as nominee and held by The Bank of New York in New York for DTC on or about the Closing Date. The Regulation S Master GDR and the Rule 144A Master GDR contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs.

The following is a summary of those provisions. Unless otherwise defined herein, terms defined in the Conditions have the same meaning herein.

Exchange

The Regulation S Master GDR and the Rule 144A Master GDR will be exchanged for certificates in definitive registered form representing GDRs only in the circumstances set forth below in whole but not in part. The Depositary will undertake in the Regulation S Master GDR and the Rule 144A Master GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for either the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, to GDR holders in the event that:

- DTC (in the case of the Rule 144A Master GDR) or Clearstream, Luxembourg or Euroclear (in the case of the Regulation S Master GDR) advises the Depositary in writing at any time that it is unwilling or unable to continue as a depositary and a successor depositary is not appointed within 90 calendar days; or
- in the case of the Rule 144A Master GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or
- either Clearstream, Luxembourg or Euroclear (in the case of the Regulation S Master GDR) or DTC (in the case of the Rule 144A Master GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine,

within 60 days of the occurrence of the relevant event. Any such exchange shall be at the expense of the Company.

Upon:

- any exchange of a part of the Regulation S Master GDR or the Rule 144A Master GDR for GDRs in definitive form;
- any exchange of interests between the Regulation S Master GDR and the Rule 144A Master GDR pursuant to the terms of the Deposit Agreement;
- any distribution of GDRs pursuant to Condition 5, 7 or 10; or
- any reduction in the number of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR following any withdrawal of Deposited Property pursuant to Condition 1,

in each case, the relevant details will be entered by the Depositary on the Register maintained by the Depositary, whereupon the number of Deposited Shares represented by the Regulation S Master GDR or the Rule 144A Master GDR will be reduced or increased (as the case may be) accordingly.

Payments, Distributions and Voting Rights

The Depositary will make payments of cash dividends and other amounts, including cash distributions, in respect of the GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR through Clearstream, Luxembourg and Euroclear in respect of the Regulation S Master GDR, and through DTC in respect of the Rule 144A Master GDR, on behalf of persons entitled thereto upon receipt of funds for such purpose from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records of the Depositary being adjusted to reflect the enlarged number of GDRs represented by the Regulation S Master GDR and/or the Rule 144A Master GDR.

GDR holders will have voting rights in respect of the underlying shares as set forth in Condition 12 and Clause 5 of the Deposit Agreement. The Depositary will exercise voting rights only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law, which shall be subject to an opinion being given by the Company's legal counsel, such counsel being reasonably satisfactory to the Depositary, that the Depositary can do so. In the absence of an opinion from legal counsel as aforesaid, the Depositary shall not exercise any voting rights and shall have no liability to the Company or any Holder for any action taken or not taken, as the case may be.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary will be satisfied by the production, on behalf of a person entitled to an interest therein, by Euroclear or Clearstream, in respect of the Regulation S Master GDR, and by DTC in respect of the Rule 144A Master GDR, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable and to issue voting instructions in respect of the Deposited Property represented by such GDR.

Notices

For so long as the Regulation S Master GDR is registered in the name of the Common Depositary on behalf of Euroclear and Clearstream, Luxembourg, and for so long as the Rule 144A Master GDR is registered in the name of DTC or its nominee, the Depositary may give notices to GDR holders by delivery to Euroclear and Clearstream, Luxembourg in respect of the Regulation S Master GDR, and to DTC or its nominee in respect of the Rule 144A Master GDR, for communication to Holders in substitution for publications required by Condition 23, except that so long as the GDRs are listed on the Official List maintained by the Financial Services Authority and admitted for trading on the London Stock Exchange and the Financial Services Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

TAXATION

The following summary of material Russian, U.S. federal income and United Kingdom tax consequences of ownership of Ordinary Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Ordinary Shares and holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Ordinary Shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Ordinary Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Russian Tax Considerations

The following discussion is a summary of certain Russian tax considerations relevant to Russian Resident Holders of the Ordinary Shares and GDRs and to Non-Resident Holders of the Ordinary Shares and of GDRs in connection with the purchase, holding and disposition of the Ordinary Shares and GDRs. This summary is based on the Russian tax laws in effect as of the date of this Prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief (it should be noted that there may be practical difficulties involved in claiming relief under an applicable double tax treaty). Prospective investors should consult their own advisers regarding the tax consequences of investing in the Ordinary Shares and GDRs. No representations are made hereby with respect to the Russian tax consequences arising for any particular holder.

Russian tax law and procedures are not well developed: local tax inspectors have considerable autonomy in tax law interpretation and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets. There is little practical experience with respect to the application of these changes and there are only a few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary:

(1) an individual who holds the Ordinary Shares or GDRs and is present in the Russian Federation for an aggregate period of less than 183 calendar days (excluding days of arrival into the Russian Federation but including days of departure from the Russian Federation) in any period comprising 12 consecutive months effective from 1 January 2007 will be referred to as a "Non-Resident Holder-Individual". Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or

(2) a legal person or organisation, in either case not organised under Russian law, that holds and disposes of the Ordinary Shares or the GDRs otherwise than through a permanent establishment in the Russian Federation will be referred to as a "Non-Resident Holder-Legal Entity".

Due to legislative changes effective from 1 January 2007, there is currently an uncertainty in determining whether an individual is a Non-Resident Holder in relation to whether the calculation should include days spent in the Russian Federation prior to 1 January 2007.

For the purposes of this summary, a "Russian Resident Holder" means:

(1) an individual who holds the Ordinary Shares or GDRs and is present in the Russian Federation for an aggregate period of 183 calendar days or more (excluding days of arrival into the Russian Federation but including days of departure from the Russian Federation) in any period comprised of 12 consecutive months effective from 1 January 2007 ("Russian Resident Holder-Individual"). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education;

(2) a legal person organised under Russian law who holds the Ordinary Shares or GDRs; or

(3) a legal person or organisation, in either case organised under a foreign law, which holds and disposes of Ordinary Shares or GDRs through its permanent establishment in the Russian Federation.

The tax residency rules may be affected by the applicable double tax treaty.

Taxation of Non-Resident Holders

Taxation of dividends

Dividends paid to a Non-Resident Holder will generally be subject to Russian withholding income tax, which will be withheld by MMK acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity, organisation or an individual. Dividends paid to a Non-Resident Holder-Legal Entity will generally be subject to Russian withholding income tax at a rate of 15 per cent. Dividends paid to a Non-Resident Holder-Individual will generally be subject to Russian withholding income tax at a rate of 30 per cent.

Withholding income tax on dividends may be reduced under the terms of any applicable double tax treaty between the Russian Federation and the country of tax residence of the Non-Resident Holder.

The Convention Between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the "United States-Russian Federation Tax Treaty") provides for reduced withholding rates on dividends paid to a Non-Resident Holder who qualifies as a U.S. tax resident entitled to benefits under this treaty, (a "U.S. Treaty Holder"), who is the beneficial owner of the dividends. Under this treaty, a 5 per cent. rate applies to dividends paid to U.S. Treaty Holders that are companies owning 10 per cent. or more of MMK's voting shares, and a 10 per cent. rate applies to dividends paid to other U.S. Treaty Holders. The Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains (the "United Kingdom-Russian Federation Tax Treaty"), provides for a 10 per cent. withholding rate on dividends paid to a Non-Resident Holder who qualifies as a UK tax resident entitled to benefits under this treaty (a "UK Treaty Holder"), who is the beneficial owner of the dividends and is subject to taxation in respect of these dividends in the United Kingdom.

Notwithstanding the foregoing, treaty relief may be unavailable to Non-Resident Holders on dividends received on GDRs. In the absence of any specific provisions in the tax legislation with respect to the concept of beneficial ownership, the taxation of income of beneficial owners or the treatment of GDRs, it is unclear how the tax authorities and courts will ultimately treat the GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed the opinion that GDR holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to the taxation of dividend income from the underlying shares, provided that the tax residence of the GDR holder for treaty purposes is duly confirmed. However, this position was expressed in private responses to specific taxpayers' queries with respect to particular situations and, as such, does not represent a statement of tax law. It is not obligatory for taxpayers or the tax authorities to follow this position, although it represents the most recent position of the authorities. Moreover, from a practical perspective, it may not be possible for the Depositary to collect tax residence confirmations for treaty purposes from all GDR holders and submit them to MMK, and, in addition, MMK may be unaware of the exact amount of income payable to each GDR holder.

Therefore, with respect to U.S. Treaty Holders or UK Treaty Holders (legal entities or organisations) of GDRs, MMK may be obliged to withhold income tax at the statutory rate of 15 per cent. from dividend payments made to the Depositary, unless, in advance of making such dividend payments to the Depositary, MMK has been provided with properly documented confirmation that such U.S. Treaty Holders or UK Treaty Holders are in fact beneficial owners of dividends within the meaning of the United States-Russian Federation Tax Treaty or the United Kingdom-Russian Federation Tax Treaty, respectively, and all administrative requirements for claiming treaty benefits have been met. The same risk exists with respect to any Non-Resident Holders eligible for the benefits of an applicable double tax treaty—see "—Tax Treaty Procedures". Preliminary approval from the Russian tax authorities is neither required nor possible to confirm treaty relief from Russian withholding income tax for Non-Resident Holders-Legal Entities.

It is also the case with respect to Non-Resident Holders-Individuals that in the event that the Depositary is viewed as the legal owner of the dividends and the information on the beneficial owners of such dividends is not available or incomplete, MMK may be obligated to withhold income tax at a rate of 15 per cent. from respective dividend payments on Ordinary Shares represented by GDRs. In addition, Non-Resident Holders-Individuals may be required to file a tax return and pay 30 per cent. tax in relation to income received from the Depositary. The tax authorities are unlikely to allow a deduction of 15 per cent. of tax already withheld by MMK, or confirm the individual's right to apply for a refund to the tax agent. It is advisable for Non-Resident Holders-Individuals to consult their tax advisers in relation to their filing position in the Russian Federation at the time when respective income is received.

With respect to Non-Resident Holders-Individuals of the Ordinary Shares, including those that are U.S. Treaty Holders or UK Treaty Holders, MMK will act as a tax agent and withhold personal income tax at an applicable statutory rate. Advance reduction of tax rate under applicable double tax treaty is not likely to be possible for Non-Resident Holders-Individuals and a refund can only be obtained by submitting a tax return/application and supporting documentation in accordance with the procedures described in "—Tax Treaty Procedures" below.

In cases where an applicable double tax treaty exists, Non-Resident Holders of GDRs (whether legal entities or individuals) may apply for a refund of a portion of the withholding income tax; however, there is no assurance that such refund will be obtained. See "—Tax Treaty Procedures" below for details.

Taxation of capital gains

Legal entities and organisations

Under current Russian tax legislation, capital gains arising from the sale, exchange or other disposition of the Ordinary Shares or GDRs by Non-Resident Holders-Legal Entities should not be subject to tax in the Russian Federation if MMK's immovable property located in the Russian Federation constitutes 50 per cent. or less of its assets. The determination of whether more than 50 per cent. of a company's assets consist of immovable property located in the Russian Federation is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in the Russian Federation does not currently, or will not, constitute more than 50 per cent. of MMK's assets.

If more than 50 per cent. of MMK's assets were to consist of immovable property located in the Russian Federation, then a Non-Resident Holder-Legal Entity may be subject to:

(1) 24 per cent. withholding income tax on the capital gain realised from the sale being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Ordinary Shares or GDRs; or

(2) 20 per cent. withholding income tax on the gross proceeds from the sale of the Ordinary Shares or GDRs.

Notwithstanding the above, capital gains arising from the sale of Ordinary Shares or GDRs by Non-Resident Holders-Legal Entities on foreign stock exchanges if such Ordinary Shares or GDRs are listed and traded on those foreign stock exchanges should not be subject to taxation in the Russian Federation. Therefore, so long as the GDRs remain listed and traded on the London Stock Exchange, gains arising from their sale, exchange or other disposition on the London Stock Exchange by Non-Resident Holders-Legal Entities that have no permanent establishment in the Russian Federation to which such sale, exchange or disposition could be connected, should not be subject to Russian income tax.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in the Russian Federation for Non-Resident Holders-Legal Entities qualifying for the relevant treaty benefits.

Under the United States-Russian Federation Tax Treaty, capital gains from the sale of Ordinary Shares or GDRs by U.S. Treaty Holders should be exempt from taxation in the Russian Federation, unless more than 50 per cent. of the fixed assets of MMK were to consist of immovable property located in the Russian Federation.

Since relief from capital gains taxation in the Russian Federation provided by the United States-Russian Federation Tax Treaty referred to above is no more beneficial for a U.S. Treaty Holder (legal entity or organisation) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for such Non-Resident Holders-Legal Entities to seek to obtain the benefit of the United States-Russian Federation Tax Treaty in relation to capital gains resulting from sale, exchange or other disposition of the Ordinary Shares or GDRs.

Under the United Kingdom-Russian Federation Tax Treaty, capital gains from sale of Ordinary Shares by UK Treaty Holders should not be subject to tax in the Russian Federation, unless the value of Ordinary Shares or the greater part of their value is derived directly or indirectly from immovable property located in the Russian Federation and the shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs.

There is a risk that entities or organisations that are tax agents who are obligated to withhold tax on capital gains may not have sufficient information regarding MMK's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to Non-Resident Holders-Legal Entities selling the Ordinary Shares or GDRs.

Where the Ordinary Shares or GDRs are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in the Russian Federation (or, arguably, with any registered presence in the Russian Federation) even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the respective tax could be withheld and remitted to the Russian tax authorities.

Individuals

Taxation of income for Non-Resident Holders-Individuals will depend on whether this income is received from Russian or non-Russian sources. While Russian tax law gives no clear indication as to how the sale, exchange or other disposition of the Ordinary Shares or GDRs should be treated in this regard, a common practical approach is to consider the place of sale. For example, the sale of Ordinary Shares or GDRs outside the Russian Federation by Non-Resident Holders-Individuals should not be considered Russian source income and, therefore, should not be taxable in the Russian Federation. However, as there is no definition of what would be considered to be a "sale in the Russian Federation", the Russian tax authorities have a certain amount of discretion to conclude whether transactions take place inside or outside the Russian Federation. The sale, exchange or other disposition of the Ordinary Shares or GDRs by a Non-Resident Holder-Individual in the Russian Federation will be considered Russian source income and will be subject to tax at the rate of 30 per cent. of the sales price minus the acquisition cost of the Ordinary Shares or GDRs and other documented expenses, such as depositary expenses and broker fees. Generally, a deduction of costs may be claimed on a personal tax return. However, the acquisition cost and related expenses may also be deducted from the sale price at the source of payment if the sale is made by a Non-Resident Holder-Individual through a licensed Russian broker, asset manager or another person carrying out operations under an agency agreement or other similar agreement (a "Tax Agent"), who should withhold the applicable tax. The Tax Agent is required to report to the Russian tax authorities on the income realised by the Non-Resident Holder-Individual and the tax withheld upon the sale, exchange or other disposition of the Ordinary Shares or GDRs. Where the sale exchange or other disposition of the Ordinary Shares or GDRs is made in the Russian Federation but not through a Tax Agent, generally no withholding needs to be made and the Non-Resident Holder-Individual will have an obligation to file a tax return with the Russian tax authorities, to report his or her income realised and to pay Russian income tax as appropriate.

Some tax treaties entered into by the Russian Federation provide beneficial tax treatment of capital gains in the Russian Federation for Non-Resident Holders-Individuals qualifying for the relevant treaty benefits.

U.S. Treaty Holders or UK Treaty Holders (individuals) whose income from the sale, exchange or other disposition of the Ordinary Shares is taxed at source by withholding at a 30 per cent. rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice the refund procedures are very time-consuming and more complicated than those for corporate holders, and successful outcomes for individuals are less likely.

Under the United States-Russian Federation Tax Treaty, capital gains from the sale of Ordinary Shares or GDRs by U.S. Treaty Holders should be exempt from taxation in the Russian Federation, unless more than 50 per cent. of the fixed assets of MMK were to consist of immovable property located in the Russian Federation. With respect to U.S. Treaty Holders (individual) the treatment provided by the United States-Russian Federation Tax Treaty may be more beneficial in cases where the immovable property does not make up 50 per cent. of MMK's fixed assets.

Under the United Kingdom-Russian Federation Tax Treaty, capital gains from a sale of shares by UK Treaty Holders should not be subject to tax in the Russian Federation, unless the value of Ordinary Shares of the greater part of their value is derived directly or indirectly from immovable property located in the Russian Federation and the Ordinary Shares are not quoted on an approved stock exchange. A similar approach may apply to the taxation of capital gains from the sale of GDRs. With respect to a UK Treaty Holder who is an individual, the treatment provided by the United Kingdom-Russian Federation Tax Treaty may be more beneficial for any gains derived from the disposition of MMK's Ordinary Shares quoted on an approved stock exchange or in cases where MMK's Ordinary Shares are not quoted on any approved stock exchange but do not derive their value or greater part of their value directly or indirectly from immovable property situated in the Russian Federation.

In order to apply the treaties, the Non-Resident Holder-Individual must receive clearance from the Russian tax authorities. Advance treaty clearance is difficult to obtain, and individuals wishing to make a treaty claim would be required to submit a tax return/application to the tax authorities as described below in "—Tax Treaty Procedures" to claim the refund of tax.

Where a U.S. Treaty Holder or UK Treaty Holder who is an individual sells Ordinary Shares or GDRs in the Russian Federation other than through a professional broker or dealer that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in the Russian Federation (or, arguably, with any registered presence in the Russian Federation), and no withholding occurs due to the absence of a Tax Agent, that U.S. Treaty Holder or UK Treaty Holder (individual) is required to submit an annual income tax return to the Russian tax authorities and pay Russian income tax, as appropriate. The same rules are applicable to any Non-Resident Holder-Individual from countries other than the United Kingdom or the United States.

Tax treaty procedures

A Non-Resident Holder-Legal Entity seeking to obtain relief from or reduction of Russian withholding income tax under a tax treaty must provide the tax agent with a confirmation of its tax residency for the purposes of the applicable double tax treaty legalised or apostilled with notarised Russian translation attached to it. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income within sufficient time period in advance to the first payment of income in each calendar year.

In accordance with the Tax Code, a Non-Resident Holder-Individual must present to the tax authorities a residence certificate issued by the competent authorities in his/her country of residence for tax purposes and may be required to submit a confirmation of the income received and the tax paid in such foreign jurisdictions, as confirmed by the relevant foreign tax authorities. Such requirements mean that the reduction of the applicable tax rate under the treaty may not be possible in practice until such time that the Non-Resident Holder-Individual pays the tax in the jurisdiction of his or her tax residence and provides sufficient documentation to the Russian tax authorities confirming that the taxes have been paid in another jurisdiction. U.S. Treaty Holders may obtain the certification of U.S. residency by mailing a completed Form 8802, Application for United States Residency Certification, together with any additional information required to: Internal Revenue Service, P.O. Box 42530, Philadelphia, PA 191014-2530. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. Obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks. If the U.S. Non-Resident Holder is eligible for certification, he will receive a Form 6166, Certification of United States Residency, upon filing a completed Form 8802 with the Internal Revenue Service. As obtaining such certification may take several weeks, U.S. Treaty Holders should apply for such certification in advance.

A UK Treaty Holder may obtain the appropriate certification by mailing completed forms to his/her local Inspector of Taxes for certification that the UK Treaty Holder is resident in the United Kingdom for tax purposes. As obtaining this certification may take several weeks, UK Treaty Holders should apply for such certification in advance.

For individuals, advance relief from or reduction of withholding income taxes will generally be impossible to obtain as it is unlikely that the supporting documentation for the treaty relief can be provided to Russian tax authorities and approval from the latter obtained before receipt of dividends or sales proceeds occurs.

If a Non-Resident Holder does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the Non-Resident Holder may apply for a refund within three years from the end of the year in which the tax was withheld if the recipient is a legal entity or organisation, or within one year from the end of the tax year in which the tax was withheld if the recipient is an individual. To process a claim for a refund, the Russian tax authorities require: (1) an apostilled or legalised confirmation of the tax residency of the Non-Resident Holder at the time the income was paid, as required by an applicable tax treaty; (2) an application for refund of the tax withheld; and (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and Form 1011DT for other income is designed to combine (1) and (2) for foreign legal entities and organisations; individuals may also be required to submit a document issued or approved by the tax authorities in the country in which they are resident for tax purposes confirming the amount of income received and taxed in that country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

The procedures described above may be more complicated with respect to dividends paid to Holders of GDRs due to the separation of legal and beneficial ownership of the Russian shares underlying the GDRs. Russian tax legislation does not provide clear guidance regarding the availability of double tax treaty relief or reduction for GDR holders. See "—Taxation of Dividends" above. In practice, it may be impossible for the Depositary to collect confirmations of residence from all GDR holders and submit them to MMK and, in addition, MMK may be unaware of the exact amount of income payable to each holder. Thus, MMK cannot assure potential investors that elimination or reduction of tax will be available under any applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on Ordinary Shares represented by GDRs. Moreover, the opinion expressed in 2005 and 2006 by the Ministry of Finance referred only to dividends and did not cover capital gains, which may leave room for varying interpretations by the tax authorities. See "Risk Factors".

Taxation of Russian Resident Holders

Russian Resident Holders will be subject to all applicable Russian taxes in respect of gains from the sale, exchange or other disposition of the Ordinary Shares or GDRs and dividends received on the Ordinary Shares or GDRs.

With respect to Russian Resident Holders of GDRs, MMK may be obliged to withhold income tax at a rate of 15 per cent. from dividend payments made to the Depositary. The tax authorities are unlikely to allow a deduction of the tax so withheld against any applicable Russian taxes of Russian Resident Holders of GDRs, or refund of the same.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material U.S. federal income tax consequences that may be relevant to a U.S. Holder (as defined below) with respect to the acquisition, ownership and disposition of Ordinary Shares or GDRs. This summary deals only with initial purchasers of Ordinary Shares or GDRs that are U.S. Holders who hold the Ordinary Shares or GDRs as capital assets. This discussion is for general information only and does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares or GDRs by particular investors. Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences, or any state, local, or foreign tax consequences relating to the ownership and disposition of the Ordinary Shares or GDRs.

This summary also does not address tax considerations applicable to investors that own, or are deemed to own, (directly or indirectly) 10 per cent. or more of MMK's voting stock, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks, financial institutions or insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt entities, dealers in securities or currencies, real estate investment trusts, regulated investment companies, grantor trusts, persons that received the Ordinary Shares or GDRs as compensation for performance of services, certain former citizens or long-term residents of the United States, investors that will hold the Ordinary Shares or GDRs as part of a hedging transaction, conversion transaction or other risk reduction transaction for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Ordinary Shares or GDRs that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or other entity created or organised in or under the laws of the United States or any State thereof, including the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) that holds Ordinary Shares or GDRs will generally depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partners or partnerships (or any other entity treated as a partnership for U.S. federal income tax purposes) should consult their tax advisers concerning the U.S. federal income tax consequences of the acquisition, ownership and disposition of Ordinary Shares or GDRs.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed United States Treasury Regulations promulgated thereunder, published rulings, judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus, as well as on the United States-Russian Federation Tax Treaty (for the purposes of this section, the "Treaty"), all as currently in effect and all subject to change at any time, possibly with retroactive effect. Furthermore, this description, in part, relies upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreements and any related agreement will be performed in accordance with its terms.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE ORDINARY SHARES AND GDRs, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Ownership of the GDRs in General

For U.S. federal income tax purposes, a U.S. Holder of GDRs will be treated as the owner of the corresponding number of Ordinary Shares of MMK held by the Depositary, and references herein to Ordinary Shares refer also to GDRs representing the Ordinary Shares.

Dividends

General

Subject to the discussion below under "—Passive Foreign Investment Company Considerations", distributions paid by MMK out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), without reduction for any Russian withholding tax paid by MMK with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations.

Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Ordinary Shares and thereafter as capital gain. However, MMK does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles and does not intend to do so in the future. U.S. Holders should therefore assume that any distribution by MMK with respect to Ordinary Shares will constitute ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from MMK.

For taxable years that begin on or before 31 December 2010, dividends paid by MMK will be taxable to certain non-corporate U.S. Holders at the special reduced rate normally applicable to capital gains, provided MMK qualifies for the benefits of the Treaty and was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). A U.S. Holder will be eligible for this reduced rate only if it has held the Ordinary Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, and did not enter into certain risk reduction transactions with respect to the Ordinary Shares or GDRs during the abovementioned holding period. The Treaty has been approved for the purposes of the qualified dividend rules, and MMK expects that it generally will be eligible for the benefits of that Treaty. Additionally, MMK believes that it was not a PFIC for U.S. federal income tax purposes in respect of its 2006 taxable year and does not anticipate becoming a PFIC in respect of its 2007 tax year or in the foreseeable future, although it can make no assurances in this regard. See "—Passive Foreign Investment Company Considerations".

Foreign Currency Dividends

Dividends paid in Russian roubles will be included in the gross income of a U.S. Holder in a U.S. dollar amount calculated by reference to the prevailing spot market exchange rate in effect on the date the dividends are received by the Depositary (in the case of GDRs) or U.S. Holder, as the case may be, regardless of whether the Russian roubles are converted into U.S. dollars at that time. If dividends received in Russian roubles are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

Effect of Russian Withholding Taxes

As discussed in "Taxation—Russian Tax Considerations," under current Russian Federation law, the payment of dividends by MMK to foreign investors will be subject to Russian withholding tax. The rate of withholding tax applicable to U.S. Holders that are eligible for benefits under the Treaty will be reduced to a maximum of 10 per cent. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Russian taxes withheld by MMK, and as then having paid over the withheld taxes to the Russian taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from MMK with respect to the payment.

A U.S. Holder may be eligible to claim a U.S. foreign tax credit with respect to non-U.S. income taxes paid in respect of the dividend, but (i) only to the extent of the amount of such tax that is not reasonably certain to be refunded to such holder and (ii) only up to an amount that is not in excess of such U.S. holder's U.S. income tax liability that would otherwise be imposed on the receipt of the dividend. Alternatively, a U.S. Holder may be entitled to claim a deduction for non-U.S. income taxes paid, but only for a year for which such U.S. Holder does not elect to claim foreign tax credits with respect to any foreign income taxes. Holders that are eligible for benefits under the Treaty may not be entitled to a foreign tax credit for the amount of any Russian taxes withheld in excess of the 10 per cent. maximum rate, and with respect to which the holder can obtain a refund from the Russian taxing authority because such amounts might be treated as recoverable by the U.S. Holder for U.S. federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will he made available in a timely fashion are uncertain. See "—Russian Tax Considerations—Taxation of Non-Resident Holders—Taxation of Dividends". The rules relating to U.S. foreign tax credits and the timing thereof are extremely complex. Accordingly, U.S. Holders should consult their tax advisers with regard to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to their particular situations.

For purposes of the foreign tax credit limitation, dividends paid by MMK generally will constitute foreign source "passive category" income, or, in the case of certain taxpayers, "general category" income. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder has not held the Ordinary Shares for at least 16 days in the 31-day period beginning 15 days before the ex dividend date.

U.S. Holders that are accrual basis taxpayers, and who do not otherwise elect, must translate Russian taxes into U.S. Dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. Dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for Russian taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend. However, cash basis and electing accrual basis U.S. Holders may translate Russian taxes into U.S. Dollars using the exchange rate in effect on the day the taxes were paid. Any such election by an accrual basis U.S. Holder will apply for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the IRS.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of Russian taxes and receiving a dividend from MMK that is eligible for the special reduced rate described above under "Dividends—General."

Exchange of GDRs for Ordinary Shares

No gain or loss will be recognised upon the exchange of GDRs for the U.S. Holder's proportionate interest in Ordinary Shares. A U.S. Holder's tax basis in the withdrawn Ordinary Shares will be the same as the U.S. Holder's tax basis in the GDRs surrendered, and the holding period of the Ordinary Shares will include the holding period of the GDRs.

Sale or other Disposition

A U.S. Holder's tax basis in an ordinary share or GDR will generally be its U.S. dollar cost. Upon a sale or other disposition of Ordinary Shares (other than an exchange of GDRs for Ordinary Shares), a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the GDRs or Ordinary Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Ordinary Shares exceeds one year. The deductibility of capital losses is subject to limitations.

If a Russian tax is withheld on the sale, exchange or other disposition of Ordinary Shares or GDRs , the amount realised by a U.S. Holder will include the gross amount of the proceeds of that sale, exchange or other disposition before deduction of the Russian tax. Capital gain or loss, if any, realised by a U.S. Holder on the sale, exchange or other taxable disposition of Ordinary Shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, a U.S. Holder may not be able to credit any Russian withholding tax imposed upon a disposition of Ordinary Shares unless the U.S. Holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit rules. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability of foreign tax credits with respect to any Russian taxes withheld from payment.

See "Passive Foreign Investment Company Considerations" below for a discussion of adverse rules that will apply to a sale or other disposition of Ordinary Shares if MMK is or becomes a PFIC for U.S. federal income tax purposes.

Passive Foreign Investment Company Considerations

A Non-U.S. corporation will be classified as a PFIC, for U.S. federal income tax purposes in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

MMK does not believe that it should be treated as a PFIC. Although net gains from transactions in commodities (such as steel) are generally treated as passive income for these purposes, passive income does not include active business gains from the sale of commodities. In order for MMK's current income not to be considered as passive under this rule, substantially all of MMK's commodities must be inventory, depreciable property used in its trade or business, or supplies used or consumed by MMK in the ordinary course of business. At this time, MMK believes that it qualifies for this active business exception. MMK's possible status as a PFIC must be determined annually, however, and may be subject to change if MMK fails to qualify under this active business exception for any year in which a U.S. Holder holds Ordinary Shares. There can be no assurance that MMK will not be considered a PFIC for any taxable year.

If MMK were to be treated as a PFIC in any year, U.S. Holders of Ordinary Shares would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Ordinary Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, dividends paid by MMK would not be eligible for the special reduced rate of tax described above under "Dividends—General." Although a U.S. Holder of the Ordinary Shares or GDRs could make one of several elections that may alleviate certain of the tax consequences referred to above, it is expected that the conditions necessary for making certain of such elections will not be satisfied in the case of the Ordinary Shares or GDRs. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Ordinary Shares, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, MMK's Ordinary Shares made within the United States or by a U.S. payer or U.S. middleman to a holder of MMK's Ordinary Shares, other than an exempt recipient (such as a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). Backup withholding tax will apply to any payments of dividends on, or the proceeds from the sale or redemption of, Ordinary Shares within the United States or by a U.S. payer or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28 per cent. through 2010.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the non-U.S. holder's U.S. federal income tax liability provided the required information is furnished to the IRS. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law (including the 1994 Income and Capital Gains Tax Convention between the United Kingdom and the Russian Federation) and published H.M. Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of Ordinary Shares or GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income and not the income of some other person, and who are resident, or, in the case of individuals only, ordinarily resident, in the UK for tax purposes and who are not tax resident in the Russian Federation and do not have a permanent establishment or fixed base in the Russian Federation with which the holding of Ordinary Shares or GDRs is connected ("UK Holders"). In addition, the summary (a) only addresses the principal tax consequences for holders who hold the Ordinary Shares or GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of holders (for example, dealers); (b) does not address the tax consequences for holders that are insurance companies, collective investment schemes, persons connected with the company tax exempt organisations; (c) assumes that the holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10 per cent. or more of the Ordinary Shares and/or voting power of MMK; (d) assumes that there will be no register in the UK in respect of the Ordinary Shares or GDRs; (e) assumes that the Ordinary Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the UK; and (f) assumes that neither the Ordinary Shares nor the GDRs will be paired with shares issued by a company incorporated in the UK.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of Ordinary Shares or GDRs in their own particular circumstances, by consulting their own tax advisers.

Taxation of Dividends

Income Tax and Corporation Tax

Holders who are resident, or, in the case of individuals only, ordinarily resident in the UK or holders who carry on a trade, profession or vocation in the United Kingdom through a branch or agency or a permanent establishment, in connection with which the Ordinary Shares or GDRs are held, will, in general, be subject to income tax or corporation tax (as the case may be) on the total of the dividends received on their Ordinary Shares or GDRs plus any withholding tax deducted in the Russian Federation.

Withholding Tax

Dividend payments in respect of GDRs or Ordinary Shares should not be subject to UK withholding tax. As discussed in "Russian Tax Considerations—Taxation of Dividends", such dividends will be subject to Russian withholding taxes. Any Russian withholding tax is generally allowed as a credit against the UK income tax or corporation tax liability of a UK Holder, but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the 1994 Income and Capital Gains Tax Convention between the UK and the Russian Federation to minimise the amount of tax payable in the Russian Federation, including obtaining relief at source and any available refunds.

Tax Liability for Individual Holders

For an individual holder who is liable to UK tax on the dividend at the dividend ordinary rate (currently 10 per cent.), the credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he will have no further UK tax to pay. For an individual holder who is liable to UK tax on the dividend at the dividend upper rate (currently 32.5 per cent.), the UK tax will be chargeable on the gross dividend with credit (as discussed above) for Russian tax deducted at source.

An individual holder of Ordinary Shares or GDRs who is resident but not domiciled in the UK for tax purposes, or who is resident but not ordinarily resident in the UK for tax purposes, will generally be liable to UK income tax only to the extent that dividends paid by the Company are remitted or deemed to be remitted to the UK.

Tax Liability for Corporate Shareholders

A holder within the charge to UK corporation tax will be liable for UK corporation tax on the receipt of the gross dividend, with credit (as discussed above) for the Russian tax deducted at source.

Provision of Information

It should be noted that persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person may be required to provide certain information to HM Revenue and Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

Certain payments on or under the Ordinary Shares or GDRs may constitute "foreign dividends" for this purpose.

Taxation of Capital Gains

The disposal or deemed disposal of the Ordinary Shares or GDRs by a holder who is resident or, in the case of individuals only, ordinarily resident in the UK for tax purposes or, in certain circumstances, by a holder who carries on a trade, profession or vocation in the United Kingdom through a branch or agency or a permanent establishment in connection with which the Ordinary Shares or GDRs are held may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief. In addition, holders who are individuals and who dispose of their Ordinary Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to capital gains tax are the extent to which the holder realises any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place, or the annual exemption, and the level of available taper relief.

Taper relief will reduce the proportion of any gain realised on the disposal of the Ordinary Shares or GDRs that is brought into the charge to capital gains tax if, in the case of non-business assets, the Ordinary Shares or GDRs are held by the holder for at least three years. In the case of non-business assets, a reduction of 5 per cent. of the gain is made for each whole year for which the Ordinary Shares or GDRs have been held in excess of two years up to the maximum reduction available of 40 per cent. after ten complete years of holding.

The annual exemption for individuals is £8,800 for the 2006-2007 tax year and, under current legislation, this exemption is, unless the UK Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index (rounded up to the nearest £100). Holders should be aware that the UK Parliament is entitled to withdraw this link between the level of the annual exemption and the retail price index or even to reduce the level of the annual exemption for future tax years below its current level.

A holder that is a UK resident company is entitled to an indexation allowance that applies to reduce capital gains (broadly speaking) to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create or increase any allowable loss.

As discussed in "Russian Tax Considerations—Taxation of Capital Gains", certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit.

Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty will be payable on the transfer of the Ordinary Shares or GDRs, provided that any instrument of transfer is not executed in the UK and does not relate to any property situated or to any matter or thing done or to be done in the UK. Where payable, the rate of stamp duty on a transfer is generally 0.5 per cent. of the transfer consideration. The rate is increased to 1.5 per cent. of the transfer consideration, or in certain circumstances the value of the securities, on transfers to a clearance service or an issuer of depositary receipts. No UK stamp duty reserve tax will be payable on an agreement to transfer Ordinary Shares or GDRs.

No stamp duty or stamp duty reserve tax will arise in the UK in respect of the issue of the Ordinary Shares or GDRs, the delivery of the GDRs into a clearance service (such as Euroclear or Clearstream) or any dealings with the Ordinary Shares or GDRs once they are issued into a clearance service where such dealings are effected in book-entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance Tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, Ordinary Shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets as less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OR GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

PLAN OF DISTRIBUTION

The Offering consists of an offering of Ordinary Shares in the form of Ordinary Shares and GDRs, namely (A)(i) an offering of GDRs and Ordinary Shares in the United States to certain QIBs in reliance on Rule 144A through U.S. broker-dealer affiliates of the Managers and (ii) an offering of GDRs and Ordinary Shares outside the United States and the Russian Federation in reliance on Regulation S and (B) an offering of Ordinary Shares in the Russian Federation through a Russian licensed broker in reliance on Regulation S.

Under the terms of, and subject to, the conditions contained in the underwriting agreement, dated 24 April 2007, between MMK and the Managers (the "MMK Underwriting Agreement"), and the underwriting agreement dated 24 April 2007 between the Selling Shareholder and the Managers (the "Selling Shareholder Underwriting Agreement", and together with MMK Underwriting Agreement, the "Underwriting Agreements"), the Managers named below have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Ordinary Shares (including a portion in the form of GDRs) indicated below. The Selling Shareholder and MMK have agreed to make available, at the Offer Price, to the Managers, the number of Ordinary Shares (including a portion in the form of GDRs) indicated below:

	Ordinary Shares	
Name	**From Selling Shareholder**	**From MMK**
ABN AMRO Bank N.V. and NM Rothschild and Sons Limited (together trading as ABN AMRO Rothschild)	48,360,000	263,640,000
Morgan Stanley & Co. International plc	48,360,000	263,640,000
Renaissance Securities (Cyprus) Limited	48,360,000	263,640,000
JSB Gazprombank (CJSC)	16,120,000	87,880,000
Total	**161,200,000**	**878,800,000**

The Underwriting Agreements contain, among others, the following provisions:

- The following amounts will be paid to the Managers from the proceeds of the Offering by MMK and the Selling Shareholder:
  - (i) certain costs and expenses incurred by the Managers in connection with the Offering; and
  - (ii) certain commissions, including an incentive fee, payable at MMK's discretion, of up to 2.25 per cent. of the amount equal to the Offer Price multiplied by the number of Ordinary Shares purchased in the Offering. Such commissions will equate to a total of up to U.S.$22,499,998 payable by MMK and the Selling Shareholder, as the case may be, with respect to the number of Ordinary Shares sold by it in the form of Ordinary Shares and GDRs indicated in the table above and, with respect to any additional Ordinary Shares sold in the form of GDRs to the Managers as a result of the exercise of the Over-allotment Option, a total of up to U.S.$2,851,875 (assuming that the Over-allotment Option is exercised in full) payable by the Selling Shareholder.
- The obligations of the parties to the Underwriting Agreements are subject to certain conditions that are typical for agreements of this nature. These conditions include, among others, the accuracy of the representations and warranties under the Underwriting Agreements and the application for Admission having been approved on or prior to the Closing Date for the Offering , as well as on the closing date for the settlement of Ordinary Shares sold in the form of Ordinary Shares. The Managers may terminate the Underwriting Agreements prior to a relevant closing date in certain specified circumstances, including the occurrence of certain material changes in the Group's financial condition, prospects, results of operations or properties, as well as certain changes in financial, political, economic or market conditions. If any of the above-mentioned conditions are not satisfied or waived by a relevant closing date, or if the Underwriting Agreements are terminated prior to a relevant closing date, then the Offering will lapse. It is also a condition under each of the Underwriting Agreements that the conditions to closing under the other Underwriting Agreement have been met and that the other Underwriting Agreement has not been terminated.
- MMK has given certain representations and warranties to the Managers including in relation to the MMK Group's business, accounting records and compliance with applicable laws, in relation to Ordinary Shares and GDRs and its conduct in connection with the Offering and in relation to the contents of this Prospectus. The Selling Shareholder has also given certain representations and

warranties to the Managers in relation to the Ordinary Shares and GDRs and in relation to the contents of this Prospectus relating to the Selling Shareholder, as well as in relation to its capacity, its good title to the Ordinary Shares and GDRs and its conduct in connection with the Offering.

- MMK and the Selling Shareholder have agreed to indemnify the Managers for certain liabilities they may incur in connection with the Offering, including liability under the Securities Act.
- If a Manager defaults under the Underwriting Agreements, the Underwriting Agreements provide that in certain circumstances, the purchase commitments of the non-defaulting Managers may be increased or the Underwriting Agreements may be terminated.
- MMK, the Selling Shareholder and Fulnek Enterprises Limited have agreed that they will not, and procure that none of their subsidiaries and no person acting on their behalf will, for a period of 180 days after the Closing Date, without the prior written consent of the Managers, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any shares of MMK or securities convertible or exchangeable into or exercisable for any shares of MMK or warrants or other rights to purchase shares of MMK or any security or financial product whose value is determined, directly or indirectly, by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities, save that these lock-up arrangements shall not apply to (1) sales or issuances of Ordinary Shares and GDRs in the Offering or the Open Subscription as described in this Prospectus, (2) the offer and sale of Ordinary Shares to subsidiaries of MMK or members of the Selling Shareholder group; (3) certain limited ordinary course trading activities of RFC and Mekom; and (4) issuances and sales of Ordinary Shares or GDRs in connection with an acquisition of assets or equity stakes in the metals and mining industry within certain specified limits and provided that the recipient first agrees to be bound by lock-up provisions substantially similar to those described above.

In addition, pursuant to the Selling Shareholder Underwriting Agreement, the Selling Shareholder has granted to the Managers an Over-allotment Option to acquire additional Ordinary Shares, up to 131,820,000 Ordinary Shares offered in the form of GDRs, at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Selling Shareholder from the Joint Global Co-ordinators on behalf of the Managers, at any time during the Stabilisation Period. If the Joint Global Co-ordinators exercise this option, the Selling Shareholder will be obligated to sell, and each Manager will be severally obligated, subject to the conditions contained in the Selling Shareholder Underwriting Agreement, to purchase or procure purchasers for, a number of additional Ordinary Shares in the form of GDRs proportionate to that Manager's initial amount reflected in the table above.

In connection with the Offering, the Stabilising Manager or any person acting for it, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. However, there is no assurance that the Stabilising Manager (or any person acting for it) will undertake stabilising action. Such stabilising, if commenced, may be discontinued at any time, and may only be undertaken during the period beginning on the date on which adequate public disclosure of the final price of the GDRs is made and ending on the date that is 30 calendar days thereafter. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

The Managers will be soliciting non-binding indications of interest in acquiring the Ordinary Shares and the GDRs under the Offering from prospective institutional investors. Prospective institutional investors will be required to specify the number of Ordinary Shares and/or Ordinary Shares in the form of GDRs which they would be prepared to acquire at the Offer Price (subject to it being determined). This process is known as book-building.

In connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up Ordinary Shares and in that capacity may retain, purchase or sell Ordinary Shares, in each case in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Ordinary Shares and GDRs allocated under the Offering will, following determination of the Offer Price, be fully underwritten by the Managers as described in this section, "Plan of Distribution". Allocations will be determined at the sole discretion of the Managers after non-binding indications of interest from prospective institutional investors have been received in the book-building process.

The Offer Price will be determined by the Managers with the agreement of MMK and the Selling Shareholder. A number of factors will be considered in deciding the Offer Price and the bases of allocation under the Offering, including the level and the nature of the demand for the Ordinary Shares and the GDRs and the objective of encouraging the development of an orderly after-market in the Ordinary Shares and the GDRs. The Managers will establish the Offer Price at a level determined in accordance with these arrangements, taking into account indications of interest received from persons (including market-makers and fund managers) connected with the Managers.

All Ordinary Shares and Ordinary Shares in the form of GDRs issued or sold pursuant to the Offering will be issued or sold at the relevant Offer Price.

Application has been made (i) to the Financial Services Authority for a listing of up to 232,311,953 GDRs, consisting of up to 67,600,000 GDRs to be issued on or about the Closing Date, up to 10,140,000 additional GDRs to be issued pursuant to the Over-allotment Option, and 154,571,953 additional GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange plc for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. Prior to the Closing Date there has not been any public market for the GDRs. Accordingly, MMK can provide no assurance that an active public or other market will develop in Ordinary Shares or GDRs or that a liquid trading market will exist for the Ordinary Shares or GDRs. MMK does not intend to list the GDRs or Ordinary Shares on any U.S. national securities exchange or to seek the admission thereof to trading on the Nasdaq National Market System.

The Ordinary Shares are listed on the "B" quotation lists on the RTS and MICEX and are traded under the symbols MAGN and MAGNG on RTS and MAGN on MICEX. Prices for Ordinary Shares traded on RTS and MICEX may not reflect the Offer Price.

MMK expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about 24 April 2007, and unconditional trading through the IOB will commence on or about 30 April 2007. Investors wishing to enter into transactions in the GDRs prior to the Closing Date of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the Offering may not take place on 27 April 2007 or at all if certain conditions or events referred to in the Underwriting Agreements are not satisfied or waived or do not occur on or prior to such date. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Some of the Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with MMK, its shareholders, or members of the MMK Group. They have received customary fees and commissions for these transactions and services.

Selling Restrictions

Each of the Managers has agreed in the Underwriting Agreements to comply with the following selling restrictions in connection with offers and sales of GDRs and Ordinary Shares.

United States

Each of the Managers has represented that the Ordinary Shares and GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each of the Managers has further represented that it has offered and sold the Ordinary Shares and GDRs, and has agreed that it will offer and sell the Ordinary Shares and GDRs, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Ordinary Shares and GDRs.

Each of the Managers has represented that neither it nor any of its affiliates, nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer and sale of the Ordinary Shares and GDRs in the United States and that the Managers only may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of GDRs in the United States only to qualified institutional buyers in accordance with Rule 144A.

In addition, until 40 days after the commencement of the Offering of the Ordinary Shares and GDRs, an offer or sale of the Ordinary Shares or the GDRs within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Managers propose to offer the Ordinary Shares (i) in the form of GDRs to institutional investors outside the United States and the Russian Federation in reliance on Regulation S, (ii) in the form of GDRs through the U.S. selling agents of certain of the Managers, only to QIBs in the United States in reliance on Rule 144A, and (iii) in the form of shares to institutional investors outside the United States in reliance on Regulation S. Each of the Managers has agreed that, except as permitted in the Underwriting Agreements, it will not offer, sell or deliver Ordinary Shares or the GDRs within the United States.

United Kingdom

Each of the Managers has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Ordinary Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Ordinary Shares or GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each a Relevant Member State), an offer to the public of any Ordinary Shares or GDRs which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (l) an average of at least 250 employees during the last financial years, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Co-ordinators for any such offer; or (d) in any other circumstances falling with Article 3(2) of the Prospectus Directive, provided in each case that no such offer of Ordinary Shares or GDRs shall result in a requirement for the publication by MMK or Selling Shareholder or any Manager of a Prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Ordinary Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Ordinary Shares or GDRs to be offered so as to enable an investor to decide to purchase any Ordinary Shares or GDRs, as the same may be varied in that Member State, by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each subscriber for or purchaser of Ordinary Shares or GDRs described in this document located within a Relevant Member State will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(l)(e) of the Prospectus Directive.

In the case of any Ordinary Shares or GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted to and agreed with the Managers and MMK that (i) any Ordinary Shares or GDRs acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, or in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale, or (ii) where Ordinary Shares or GDRs have been acquired by it or on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Ordinary Shares or GDRs to it is not treated under the Prospectus Directive as having been made to such persons. MMK and the Managers and each of their respective affiliates, and others will rely upon the truth and accuracy of the foregoing representation, warranty and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase Ordinary Shares or GDRs.

The Russian Federation

Each of the Managers has represented and agreed that it has not offered or sold and will not offer or sell any GDRs to or for the benefit of any persons resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

The GDRs have not been and will not be registered in Russia and are not intended for "placement" or "public circulation" in Russia.

Japan

Each of the Managers has represented and agreed that the Ordinary Shares and GDRs have not been and will not be registered under the Securities and Exchange Law of Japan and that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Ordinary Shares or GDRs in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Canada

Each of the Managers has represented and agreed that the GDRs will only be offered or sold, directly or indirectly, in Canada only in the Canadian provinces of British Columbia, Ontario and Québec and in compliance with applicable Canadian securities laws and, accordingly, any sales of GDRs will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws and (ii) pursuant to an exemption from the Prospectus requirements of such laws.

General

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Ordinary Shares or the GDRs, or the possession or distribution of this Prospectus or any other material relating to the Offering or the Ordinary Shares and GDRs, in any jurisdiction where action for such purpose is required. Accordingly, the Ordinary Shares and GDRs may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by us or any Manager. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

TRANSFER RESTRICTIONS

Each purchaser of Ordinary Shares or GDRs pursuant to Rule 144A under the Securities Act, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a QIB, (ii) is aware that, and each beneficial owner of such Ordinary Shares or GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act, (iii) is acquiring such Ordinary Shares or GDRs for its own account or for the account of a QIB, and (iv) if it is acquiring such Ordinary Shares or GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the Ordinary Shares or GDRs purchased pursuant to Rule 144A under the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in transactions not involving any public offering in the United States and are restricted securities within the meaning of the Securities Act.

3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the Ordinary Shares or GDRs purchased pursuant to Rule 144A under the Securities Act or the Ordinary Shares represented thereby, such GDRs and Ordinary Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legends, which the Ordinary Shares or GDRs purchased pursuant to Rule 144A under the Securities Act will respectively bear unless otherwise determined by MMK and the Depositary in accordance with applicable law:

   THIS ORDINARY SHARE OF MMK (THE "SHARE") HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARE MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THE SHARES.

   THIS RULE 144A GLOBAL DEPOSITARY RECEIPT ("GDR") AND THE ORDINARY SHARES OF MMK REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF MMK THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE

SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

4. MMK, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the Ordinary Shares or the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption thereunder.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs offered in this Offering and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant tax laws and regulations of the United States. See "Taxation—Certain U.S. Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form of GDRs

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by a master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York, London Branch as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by a master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the nominee for the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from MMK for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from MMK for holders holding through DTC are received by DTC.

MMK will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the relevant deposit agreements.

Clearing and Settlement of Shares

The Ordinary Shares offered in this Offering are listed on the RTS and MICEX. The trading symbol for the Ordinary Shares is MAGN/MAGNG.

Each purchaser of the Ordinary Shares in the Offering is required to pay for any such Ordinary Shares in U.S. dollars or roubles, as the case may be, immediately after the delivery of such Ordinary Shares. In order to take delivery of the Ordinary Shares, an investor should either have a direct account with MMK's share registrar, CJSC "RO Status", or a deposit account with CJSC Depositary Clearing Company ("DCC") or Not-for-Profit Partnership The National Depositor Center ("NDC"), or any other depositary that has an account with DCC or NDC or a direct account with MMK's share registrar. Investors may at their own expense choose to hold the Ordinary Shares through a direct account with MMK's share registrar. However, directly-held Ordinary Shares are ineligible for trading on MICEX or RTS. Only if the Ordinary Shares are deposited with NDC, or through another depositary having an account at NDC, can they be traded on MICEX and only if the Ordinary Shares are deposited with the DCC, or through another depositary having an account at DCC, can they be traded on the RTS.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the Ordinary Shares and the GDRs, see "Transfer Restrictions".

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts if payment is effected in U.S. dollars, or free of payment if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the master Regulation S GDR.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of MMK, the Selling Shareholder, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York by a special act of the New York State legislature. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States. Its principal administrative offices are located at 101 Barclay Street, 22nd Floor, New York, New York 10286, United States. A copy of the Depositary's articles of association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, New York 10286, United States and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom. The Depositary is validly incorporated.

LEGAL MATTERS

Certain legal matters in connection with this Offering will be passed upon for MMK with respect to the laws of the United Kingdom and the United States by Linklaters, London, England and with respect to the laws of the Russian Federation by Linklaters CIS, Moscow, Russian Federation. Certain legal matters in connection with this Offering will be passed upon for the Managers with respect to the laws of the United Kingdom and the United States by Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, England and with respect to the laws of the Russian Federation by Skadden, Arps, Slate, Meagher & Flom LLP, Moscow, Russian Federation.

INDEPENDENT AUDITORS

KPMG Limited

The MMK Group's financial statements as at and for the years ended 31 December 2004 and 2005 included in this Prospectus, have been audited by KPMG Limited, independent auditors, as stated in their report appearing herein.

ZAO Deloitte & Touche CIS

The MMK Group's financial statements as at and for the year ended 31 December 2006 included in this Prospectus have been audited by ZAO Deloitte & Touche CIS, independent auditors of the MMK Group. The report of ZAO Deloitte & Touche CIS thereon is included in the Prospectus. ZAO Deloitte & Touche CIS have registered offices at Business Center "Mokhovaya", 4/7 Vozdvizhenka St., Bldg.2, Moscow 125009, Russian Federation. ZAO Deloitte & Touche CIS are a member firm of the Institute of Professional Accountants of Russia (IPAR).

For the purpose of compliance with the Prospectus Rules, ZAO Deloitte & Touche CIS has given and not withdrawn its written consent to the inclusion, in the form and context in which it is included, on page F-4 of this Prospectus of its auditors' report on the consolidated financial statements of the MMK Group for the year ended December 31, 2006, and has authorized the contents of such auditors' report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules. ZAO Deloitte & Touche CIS has also accepted responsibility for such auditors' report as part of the Prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Prospectus in compliance with Annex X item 1.2 of the Prospectus Rules. As the Ordinary Shares and GDRs have not been and will not be registered under the Securities Act, ZAO Deloitte & Touche CIS has not filed, and will not be required to file, a consent under the Securities Act.

LISTING AND GENERAL INFORMATION

1. All consents, approvals, authorisations or other orders required for the issuance of the Ordinary Shares and the GDRs under the laws of the Russian Federation have been given or obtained (subject only, in respect of the new Ordinary Shares issued in the capital increase, to the filing with the FSFM of a statutory notification on the results of the placement of the new Ordinary Shares).
2. The issuance of the newly issued Ordinary Shares was duly authorised by the Board of Directors of MMK on 15 December 2006 in accordance with its charter and was registered with the FSFM on 18 January 2007. The circulation of the Ordinary Shares outside the Russian Federation in the form of GDRs was approved by the FSFM on 18 January 2007.
3. It is expected that listing of the GDRs will take place on 27 April 2007 subject only to the issuance of the master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 30 April 2007. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.
4. There has been no significant change in MMK's financial or trading position since 31 December 2006.
5. From time to time MMK and its subsidiaries are involved in legal proceedings arising in the ordinary course of business. However, there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which MMK is aware, during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on MMK's or on the MMK Group's financial position or profitability.
6. In the event that certificates in definitive form are issued in respect of the GDRs, MMK will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
7. Copies in English of the following documents may be inspected at the offices of Linklaters, One Silk Street, London EC2Y 8HQ, during usual business hours on any weekday, excluding Saturday, Sunday and public holidays, for a period of one year following admission of the GDRs to trading on the London Stock Exchange:
   (a) the charter of MMK in effect upon completion of this Offering;
   (b) the MMK Group's audited annual consolidated U.S. GAAP financial statements as at and for the years ended 31 December 2004, 2005 and 2006; and
   (c) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at MMK's request any part of which is included or referred to in the Prospectus.
8. The MMK Group prepares annual and consolidated interim financial statements in accordance with U.S. GAAP. Copies of MMK's future annual audited consolidated financial statements and unaudited interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the office of MMK or the Depositary.
9. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in this Offering. This Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the managers. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the closing date of this Offering.
10. The GDRs have no nominal or par value. The offer price was determined based on the results of the book building exercise conducted by the Managers.

GLOSSARY

Bars	Circular long steel products that are rolled from billets.
Basic oxygen furnace ("BOF")	A pear-shaped steelmaking unit, lined with refractory bricks, which refines molten pig iron from the blast furnace and metal scrap into steel. Scrap is charged following the hot metal poured from the blast furnace. An oxygen lance is lowered from above, through which blows a high-pressure stream of oxygen to cause an oxidation reaction with iron impurities (carbon, silicon, phosphorus and manganese etc.) in order to separate the impurities from the hot metal into fumes or slag.
Billet	A semi-finished steel product with a square cross section up to 150mm x 150mm. This product is continuously cast and is further processed by rolling to produce finished long products. The range of semi-finished products above 150mm x 150mm are called blooms.
Blast furnace	A furnace used in the integrated metallurgical process in which iron ore in the form of sinter or pellet is melted down and chemically reduced under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating agent. As a result, a liquid hot metal is produced, also called pig iron.
Blooms	See "Billet".
Coated steel	Steel sheet coated by immersion in a bath of molten material (known as hot-dip) to protect the base metal (substrate) against corrosion. The most commonly used protective material is zinc. A polymeric coating can also be deposited on the layer of zinc. The zinc-coated steel is often referred to as "galvanised steel".
Coils	Flat steel that has been wound.
Coke	A fuel obtained by the pyrolysis of coal in coke ovens and used as a reducing agent for iron ore in the blast furnace.
Coking coal	Coal used for making coke, used to make iron.
Cold-rolled sheet	Sheet steel that has been run through a cold-rolling mill or a product of a steel rolling mill that has passed through all of the technological processes of cold rolling.
Cold-rolling mill	Equipment that reduces the thickness, or gauge, of flat steel products by rolling semi-finished products between rolls without prior reheating.
Continuous casting	The steel casting process, in the course of which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The steel is poured from a ladle into bottomless water-cooled moulds, known as crystalliser pans. As the steel enters the crystalliser pan, it forms a solid flexible sinter skin in the form of the pan which can then be further rolled out and cooled until complete crystallisation of a billet and then stripped into the lengths required.

Dolomite	A sedimentary rock composed largely of calcium magnesium carbonate.
Downstream products	A category of value-added products, which includes galvanised steel and tin-plate.
Electric arc furnace	A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100 per cent. of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.
Ferro alloy	A metal product commonly used as a raw materials feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Ferrous	Metals that consist primarily of iron.
Flat products	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness); (ii) thick flat products (between 4mm and 50mm in thickness); and (iii) plates (over 50mm in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot- and cold-rolled sheet, plates and coils.
Galvanised steel	See "Coated steel".
Hot-rolled steel	Steel rolled in a hot-rolling mill.
Hot-rolling	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
Integrated metallurgical process	The process including all stages of metallurgical treatment, from iron ore mining to rolling finished products at one site.
Long products	Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.
Metalware	Products made of metal.
Pellets	Agglomerate material used for blast furnace smelting which is produced by rolling concentrate into small balls of 8-16 com size, which are then roasted in order to further harden.

Pickling — The process in which the surface of the steel is cleaned with acid to remove scale, rust and dirt, such process being preparation for further processing, such as cold-rolling, galvanising or cutting.

Polymer-coated steel products — A variety of products produced either by varnish and paint coating or film coating.

Refining — A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast.

Reinforcing bar, or Rebar — A commodity-grade steel used to strengthen concrete in highway and building construction.

Reserves — Russia has a long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques. As used in this Prospectus:

Category B reserves include only explored deposits and must meet the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;
- the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
- the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs,

except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

- the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and
- the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Scrap — Iron containing material (mainly industrial or household waste) that generally is remelted into steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.

Semi-finished products — Metal intended for further treatment in hot- or cold-rolling shops.

Sinter — The product of thermal processing of mixed particles of agglomerative ore, iron ore concentrates and limestone, being a strong, porous sinter used for further partition in blast furnaces.

Slab — A semi-finished steel product obtained by casting through a continuous caster and cut into various lengths. The slab has a rectangular cross section and is used as a starting material for the production of flat products.

Slag — A by-product, containing inert materials, produced during the blast-furnace smelting process and other steel-making operations.

Slitting — Cutting a sheet of steel into narrower strips.

Strip (Hot-rolled or Cold-rolled) — Flat steel products with widths of less than 600mm.

INDEX TO FINANCIAL STATEMENTS

Consolidated financial statements as of and for the year ended 31 December 2006

Consolidated financial statements as of and for the years ended 31 December 2005 and 2004

Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements

As of and for the year ended December 31, 2006

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of OJSC "Magnitogorsk Iron & Steel Works":

We have audited the accompanying consolidated balance sheet of OJSC "Magnitogorsk Iron & Steel Works" and its subsidiaries (the "Group") as of December 31, 2006 and the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2006 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche

March 15, 2007

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006
(Amounts in millions of U.S. dollars, except share amounts)

	Note	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	3	338
Short-term bank deposits	4	228
Short-term investments	5	325
Accounts receivable from third parties, less allowance for doubtful accounts of USD 12	6	834
Accounts receivable from related parties	23	17
Prepaid expenses		14
Inventories	7	688
Current deferred income tax assets	21	36
Total current assets		**2,480**
Property, plant and equipment, net	8	2,764
Investments in affiliates	9	123
Long-term investments	5	146
Long-term bank deposits	4	109
Long-term deferred income tax assets	21	10
Goodwill		2
Other intangible assets, net	10	43
Other long-term assets	11	12
TOTAL ASSETS		**5,689**

See notes to the consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS OF DECEMBER 31, 2006
(Amounts in millions of U.S. dollars, except share amounts)

	Note	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdrafts		2
Short-term borrowings and current portion of long-term debt	12	373
Current portion of long-term capital lease obligations	14	25
Accounts payable and accrued liabilities	15	545
Accounts payable to related parties	23	8
Current deferred income tax liabilities	21	11
Total current liabilities		**964**
Long-term debt, net of current portion	13	577
Long-term capital lease obligations, net of current portion	14	29
Employee benefit obligations	16	30
Long-term deferred income tax liabilities	21	50
Total liabilities		**1,650**
Commitments and contingencies	24,25	—
Minority interest		**12**
Shareholders' equity:		
Common stock (10,630,222 thousand shares with a par value of 1 Russian Ruble each, authorized and issued)	17	363
Treasury stock, at cost (common shares totaling 485,062 thousand shares)	17	(85)
Additional paid-in capital		254
Accumulated other comprehensive income	5	18
Retained earnings		3,477
Total shareholders' equity		**4,027**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,689**

See notes to the consolidated financial statements.

The consolidated financial statements were approved and signed on March 15, 2007, by:

/s/ V. I. Shmakov
V. I. Shmakov
Vice-President on Finance

/s/ A. S. Batrutdinov
A. S. Batrutdinov
Deputy Chief Accountant

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts in millions of U.S. dollars, except earnings per share amounts)

	Note	Year ended December 31, 2006
Net revenue	19	6,424
Cost of products sold (exclusive of depreciation and amortization shown separately below)		(3,619)
Depreciation and amortization		(188)
Selling and distribution expenses		(415)
Administrative and other expenses		(285)
Social expenses		
Social asset construction costs		(18)
Social and maintenance expenses		(58)
Taxes other than income tax		(63)
Loss on disposal of property, plant and equipment		(52)
Other operating income, net	20	39
Income from operating activities		**1,765**
Equity in net losses of affiliates		(8)
Interest income		69
Interest expense		(63)
Net foreign exchange gain		132
Income before income tax and minority interest		**1,895**
Income tax expense	21	(468)
Income before minority interest		**1,427**
Minority interest		(1)
Net income		**1,426**
Other comprehensive income:		
Unrealized gain on securities classified as available for sale, net of income tax effect of USD 5	5	18
Comprehensive income		**1,444**
Basic and diluted earnings per common share (USD)	18	**0.140**

See notes to the consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts in millions of U.S. dollars)

	Year ended December 31, 2006
Operating activities:	
Net income	1,426
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	188
Loss on disposal of property, plant and equipment	52
Change in allowance for doubtful accounts receivable	(8)
Net gain on trading securities	(2)
Deferred income taxes	7
Equity in net losses of affiliates	8
Minority interest	1
Changes in operating assets and liabilities:	
Increase in inventories	(120)
Increase in trade and other receivables	(262)
Increase in investments classified as trading securities	(308)
Increase in trade accounts payable, accrued liabilities and other current liabilities	132
Decrease in income tax payable, net of prepaid income tax	(37)
Net cash provided by operating activities	**1,077**
Investing activities:	
Proceeds from sales of property, plant and equipment	25
Proceeds from disposal of subsidiary	7
Purchases of investments in affiliates	(5)
Purchases of property, plant and equipment	(697)
Purchases of intangible assets	(28)
Net change in bank deposits	(228)
Loans provided to affiliates	(21)
Purchases of investment securities classified as available for sale	(122)
Net cash of other investments	(11)
Net cash used in investing activities	**(1,080)**
Financing activities:	
Proceeds from loans	1,724
Loan principal paid	(1,387)
Net increase in bank overdrafts	2
Acquisition of treasury shares	(24)
Proceeds from re-issuance of treasury shares	10
Principal payments on capital lease obligations	(27)
Dividends paid	(1,077)
Net cash used in financing activities	**(779)**
Effect of exchange rate changes on cash and cash equivalents	(18)
Net decrease in cash and cash equivalents	**(800)**
Cash and cash equivalents at beginning of the year	1,138
Cash and cash equivalents at end of the year	**338**
Supplementary information:	
Interest paid	30
Income tax paid	498
Non-cash investing and financing activities:	
Machinery and equipment acquired under capital leases	33

See notes to the consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts in millions of U.S. dollars)

	Note	Common stock	Common treasury stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
Balance as of January 1, 2006		**363**	**(64)**	**247**	**—**	**3,131**	**3,677**
Acquisition of treasury shares		—	(24)	—	—	—	**(24)**
Re-issuance of treasury shares, net of income tax effect of USD 2		—	3	7	—	—	**10**
Revaluation of securities classified as available for sale, net of income tax effect of USD 5	5	—	—	—	18	—	**18**
Dividends	17	—	—	—	—	(1,080)	**(1,080)**
Net income		—	—	—	—	1,426	**1,426**
Balance as of December 31, 2006		**363**	**(85)**	**254**	**18**	**3,477**	**4,027**

See notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS

The consolidated financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries ("the Group") comprise the parent company Open Joint Stock Company Magnitogorsk Iron & Steel Works ("the Parent Company") and its 57 subsidiaries. The Parent Company is an open joint stock company as defined in the Civil Code of the Russian Federation. The head office of the Group is located at:

Ulitsa Kirova 93,
455002, Magnitogorsk,
The Russian Federation.

The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on October 17, 1992 as part of the Russian Federation privatization program. The principal activity of the Group is the production of ferrous metal products at the Parent Company's plant located in the city of Magnitogorsk in the Chelyabinsk region of the Russian Federation. The Group's products are sold in the Russian Federation and abroad. The Group's subsidiaries are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's Russian entities maintain their accounting records in Russian Rubles ("RUR") in accordance with the requirements of the Russian accounting and tax legislation.

The accompanying consolidated financial statements differ from financial statements prepared for statutory purposes in the Russian Federation in that they reflect certain adjustments, appropriate to present the consolidated financial position, results of operations and cash flows in accordance with U.S. GAAP.

Principles of consolidation

The consolidated financial statements include the financial statements of the Parent Company as well as entities where the Parent Company has operating and financial control through direct or indirect ownership of a majority voting interest. The consolidated financial statements also include accounts of variable interest entities where the Group is a primary beneficiary. All significant intercompany transactions, balances and unrealized gains/(losses) on transactions have been eliminated.

Entities acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

The effective ownerships indicated in the table below are also the nominal holdings, except for CJSC Ogneupor, a 100% subsidiary of OJSC MTSOZ.

(Amounts in millions of US dollars, unless otherwise stated)

Set forth below is a summary of the Group's primary subsidiaries:

Group entity	Registered in	Core business	Effective ownership, % As of December 31, 2006
OJSC Metizno-Kalibrovochniy Zavod "MMK-Metiz"	Russia	Production of hardware products	85.85
LLC IK RFC	Russia	Investing activities	100.00
CJSC Stroitelny Fond	Russia	Renting services	100.00
CJSC A-Kapital	Russia	Investing activities	100.00
CJSC Stroitelniy Komplex	Russia	Construction	100.00
CJSC Ogneupor	Russia	Production of refractory materials	98.89
CJSC Mekhanoremontny Komplex	Russia	Maintenance of metallurgical equipment	100.00
CJSC Mechanoremont	Russia	Renting services	98.93
OJSC MTSOZ	Russia	Production of cement and refractory materials	98.89
MMK Steel Trade AG	Switzerland	Trading activities	100.00
MMK Trading AG	Switzerland	Trading activities	99.60
MMK Finance S.A.	Luxemburg	Financing activities	96.77

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Examples of significant estimates include the allowance for doubtful accounts, the recoverability of intangible assets and other long-lived assets and valuation allowances on deferred tax assets. Actual results could differ from those estimates.

Concentration of business risk

The Group's principal business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes, which could impact the Group's assets and operations.

Reporting and functional currencies

The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("FAS") No. 52, "Foreign Currency Translation", ("FAS No. 52").

The national currency of the Russian Federation is the RUR, the local currency of the Group's primary operating subsidiaries. The Group has determined the functional currency of the Parent Company and each of its subsidiaries to be the U.S. dollar ("USD"). Management believes that USD is the appropriate functional currency of the Group.

Monetary assets and liabilities have been remeasured into USD at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities have been remeasured into USD at historical rates. Revenues, expenses and cash flows have been remeasured into USD at rates which approximate actual rates at the date of the transaction. Remeasurement differences resulting from the use of these rates are included in the consolidated statement of operations and comprehensive income.

As of December 31, 2006, an exchange rate of 26.33 RUR to USD has been used for remeasurement purposes. The weighted average exchange rate for the year ended December 31, 2006 was 27.32 RUR to USD.

The RUR is not a readily convertible currency outside the territory of the Russian Federation. Accordingly, remeasurement of amounts recorded in RUR into USD should not be construed as a representation that the RUR amounts have been, could be, or will in the future be converted into USD at the exchange rate shown or at any other exchange rate.

Comprehensive income

FAS No. 130, "Reporting Comprehensive Income", requires the reporting of comprehensive income in addition to net income. Accumulated other comprehensive income includes foreign currency translation adjustments, unrealized holding gains and losses on available-for-sale securities and on derivative financial instruments, as well as additional pension liabilities not yet recognized as net periodic pension cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and liquid promissory notes with original maturities of ninety days or less at the date of purchase.

Restricted cash

Restricted cash represents legally restricted collateral deposited with various banks as margin for irrevocable letters of credit.

Financial instruments

The Group's financial instruments include cash and cash equivalents, short-term and long-term investments, receivables, payables and debt. Except as described in Note 22, the estimated fair value of such financial instruments as of December 31, 2006 approximates their carrying value as reflected in the consolidated balance sheet.

Investment securities

The Group's investment securities include debt and equity securities.

The Group classifies its debt securities in one of three categories: trading, available-for-sale or held-to-maturity; its equity securities as trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the short term. Held-to-maturity debt securities are those securities, for which the Group has the ability and intent to hold it until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. Held-to-maturity securities are recorded at amortized cost using the effective interest method, adjusted for the amortization or accretion of premiums or discounts.

A decline in the market value of any available-for-sale or held-to-maturity security below cost, that is deemed to be other than temporary, results in a reduction of the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether impairment is other than temporary, the Group considers whether it has the ability and intent to hold the investment until the market price recovers and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end and forecasted performance of the investee.

Investments in affiliates and joint ventures

Investments in majority owned affiliates and joint ventures, where control does not exist, and 20% to 50% owned affiliates in which the Group has the ability to exercise significant influence are accounted for under the equity method of accounting whereby the investment is carried at cost of acquisition, plus the Group's equity in net earnings or losses since acquisition, less dividends received.

Investments in affiliates and joint ventures, over which the Group does not have the ability to exercise significant influence and which have readily determinable fair value, are accounted for at fair value. To the extent that these investments do not have a readily determinable fair value, they are accounted for under the cost method.

The Group periodically reviews all of its investments in affiliates and joint ventures for which fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the investment is written down to fair value. The amount of any write-down is included in the consolidated statement of operations and comprehensive income.

Trade and other receivables

Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable balances. The Group reviews its allowance for doubtful accounts monthly. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Value-added taxes

Value-added taxes ("VAT") related to sales are payable to the tax authorities upon issuance of invoices to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are not reclaimable as of the balance sheet date is recorded as VAT receivable in the consolidated financial statements.

Inventories

Inventories are stated at the lower of acquisition/manufacturing cost or market value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

The elements of costs include direct material, labour and allocable material and manufacturing overheads. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials are valued at purchase cost inclusive of freight and other shipping costs.

Market value is the estimated price at which inventories can be sold in the normal course of business after allowing for cost of completion and sale.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Capitalized production costs for internally developed assets include materials, direct labor costs and allocable material and manufacturing overhead costs. When construction activities are performed over an extended period, interest costs incurred during construction are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

The costs of planned major maintenance activities are recorded as costs as incurred. Costs for activities that lead to the prolongation of useful life or to expanded future use capabilities of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

Leased assets

Capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments, less accumulated depreciation and impairment losses. The discount rate used in determining present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to learn the implicit rate computed by the lessor and (2) the implicit rate is less than the Group's incremental borrowing rate. If both of those conditions are met, the interest rate implicit in the lease is used. Amounts due within one year are classified as short-term lease liabilities and the remaining balance as long-term lease liabilities.

Mineral licenses

Mineral licenses to develop mineral reserves and resources are stated at historical cost less accumulated amortization. Mineral licenses are presented as a separate component of property, plant and equipment in the consolidated balance sheet in accordance with Emerging Issues Task Force ("EITF") Issue No. 04-2, "Whether Mineral Rights are Tangible or Intangible Assets".

Depreciation

Depreciation is charged to the consolidated statement of operations and comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and substantially ready for use. Land is not depreciated.

The following useful lives are used as a basis for calculating depreciation:

Buildings	33-44 years
Machinery and equipment	17-32 years
Transportation equipment	8-22 years
Fixtures and fittings	8-14 years

Mineral rights are amortized using the straight-line basis over the license term assuming constant production during the period of license.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of businesses acquired over the fair value of identifiable net assets at the date of acquisition.

Goodwill and intangible assets acquired in business combinations that have an indefinite useful life are not amortized. Goodwill is reviewed annually for impairment or whenever it is determined that impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142, "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill.

Intangible assets, that primarily represent production licenses and various purchased software costs, with finite useful lives are amortized over their respective estimated useful lives to their estimated residual values and are reviewed periodically for impairment.

No impairment of goodwill and other intangible assets was recognized in the year ended December 31, 2006.

Debt issuance costs

Debt issuance costs are amortized using the effective interest method over the terms of the related loans.

Impairment of long-lived assets

The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management is not aware of any indicators of impairment that occurred relating to the Group's investments in long-lived assets during the year ended December 31, 2006.

Accrued and contingent liabilities

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives.

Employee benefits

Defined contribution plans

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to income in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund, where the rate of contributions to that fund vary from 20% to 2%, depending on the annual gross remuneration of each employee.

The Group's obligations for contributions to other defined contribution plans are recognized as an expense as incurred.

Defined benefit plans

The Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of operations and comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield on government bonds that have maturity dates approximating the terms of the Group's obligations.

Revenue recognition

Revenue is recognized on an accrual basis when earned and realizable, which generally occurs when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists and the sales price is fixed or determinable.

Revenue is recognized net of applicable provisions for discounts, allowances, associated value-added taxes and export duties.

Income tax

Deferred income tax is accounted for under the liability method and reflects the tax effect of all significant temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Deferred income tax assets and liabilities arising in different tax jurisdictions are not offset.

In accordance with FAS No. 52 and FAS No. 109, "Accounting for Income Taxes", ("FAS No. 109"), deferred tax assets and liabilities are not recognized for temporary differences arising from the remeasurement of the local currency into the functional currency using historical exchange rates. Also in accordance with FAS No. 109, no deferred tax assets or liabilities are recognized for the effects of tax indexation of property, plant and equipment.

A valuation allowance is provided for deferred tax assets if it is more likely than not that the deferred tax assets will not be realized. In making this assessment, the Group's management considers all available evidence, including the scheduled reversal of deferred income tax liabilities, projected future taxable income and tax planning strategies.

Derivative financial instruments and hedging activities

Derivative instruments, consisting primarily of foreign currency forward and option contracts, are utilized by the Group to manage its exposure to fluctuations in foreign exchange rates. The Group does not enter into foreign currency hedging contracts related to its investment in affiliated companies.

The Group accounts for its derivative financial instruments following the provisions of FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. All derivatives are recorded as either assets or liabilities in the consolidated balance sheet and measured at their respective fair values.

The accounting for changes in the fair value of derivative financial instruments depends on whether it has been designated and qualifies as an accounting hedge and further, on the type of hedging relationship. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If a derivative is designated as a cash flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the statement of operations and comprehensive income when the hedged item affects earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change.

For the year ended December 31, 2006, no derivatives were designated as hedges and a net loss of USD 0.4 million relating to a change in the fair value of derivative instruments was included in net foreign exchange loss in the consolidated statement of operations and comprehensive income.

Distributions to shareholders

Distributable retained earnings of the Group are based on amounts recorded in the statutory accounts of individual entities and may significantly differ from amounts calculated on the basis of financial statements prepared in accordance with U.S. GAAP.

Guarantees

A liability is recorded for the fair value of a guarantee issued by the Group when it represents a non-contingent obligation of the Group to stand ready to perform. Subsequent to initial measurement, the fair value assigned to the guarantee would be reduced and recognized in the consolidated statement of operations and comprehensive income as the Group is released from risk under the guarantee, as appropriate. All other guarantees are disclosed as a contingency in the consolidated financial statements.

Segment information

According to FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", segment reporting follows the internal organizational and reporting structure of the Group. The Group operates in a single business segment, which is composed of the manufacturing of semi-finished and finished steel products. The revenues from the sale of these products constitute more than 95% of total revenues. All significant assets, production and management and administrative facilities are located in the city of Magnitogorsk, the Russian Federation.

New and recently adopted accounting pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48"), to clarify the accounting for uncertain tax positions stated in FAS No. 109. FIN 48 applies to all tax positions that are within the scope of FAS No. 109 and requires the two-step approach for recognizing and measuring tax benefits. FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information. FIN 48 also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Group is currently assessing the impact of the adoption of FIN 48.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements", ("FAS No. 157"). FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, FAS No. 157 does not require any new fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FAS No. 157 is required to be adopted by the Group on January 1, 2008. The Group is currently assessing the impact of the adoption of FAS No. 157.

(Amounts in millions of US dollars, unless otherwise stated)

In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" —an amendment of FASB Statements No. 87, 88, 106, and 132(R)", ("FAS No. 158"). FAS No. 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. FAS No. 158 also require companies to measure their plan assets and benefit obligations as the year-end balance sheet date. FAS No. 158 is effective for fiscal years ending after June 15, 2007; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. If the Group had adopted the recognition provision of FAS No. 158 as of December 31, 2006, it would have been required to recognize a pre-tax liability for the underfunded status of the benefit plan of USD 4.5 million.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise local and foreign currency bank balances, call deposits and highly-liquid bank promissory notes.

	December 31, 2006
Bank accounts, RUR	75
Bank accounts, USD	52
Bank accounts, EUR	6
Bank accounts, CHF	1
Bank deposits, RUR	148
Bank deposits, USD	8
Bank promissory notes, RUR	44
Cash equivalents, RUR	4
	338

As of December 31, 2006, the weighted average interest rate on bank deposits with original maturities less than ninety days was 6.43%.

4. SHORT-TERM AND LONG-TERM BANK DEPOSITS

	December 31, 2006
Short-term bank deposits	
Bank deposits, RUR	228
Long-term bank deposits	
Bank deposits, RUR	109

As of December 31, 2006, the weighted average interest rate on short-term bank deposits with original maturities exceeding ninety days was 10.08%.

As of December 31, 2006, the long-term subordinated cash deposits were placed in a Russian bank and are not available to be withdrawn before December 15, 2009.

As of December 31, 2006, the weighted average interest rate on long-term bank deposits was 6.50%.

(Amounts in millions of US dollars, unless otherwise stated)

5. SHORT-TERM AND LONG-TERM INVESTMENTS

	December 31, 2006
Short-term investments	
Trading promissory notes	212
Trading debt securities	78
Trading equity securities	30
Share in mutual investment fund	5
	325
Long-term investments	
Equity securities classified as available for sale	**146**

Trading debt securities and trading promissory notes are liquid publicly traded bonds and notes of Russian companies and banks. They are reflected at period-end market value based on last trade prices obtained from investment brokers.

Trading equity securities are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on last trade prices obtained from investment brokers.

Net gain on trading securities for the year ended December 31, 2006 was USD 2 million. That gain was included in other operating income in the consolidated statement of operations and comprehensive income (refer to Note 20).

Long-term equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and no significant influence. As of December 31, 2006, unrealized holding gains on these securities were USD 18 million, net of the related income tax effect of USD 5 million, and reported as a separate component of other comprehensive income.

6. ACCOUNTS RECEIVABLE FROM THIRD PARTIES

	December 31, 2006
Trade accounts receivable	422
Value-added tax receivable	191
Advances paid	137
Interest receivable	23
Prepaid income tax	19
Other receivables	54
	846
Allowance for doubtful accounts	(12)
	834

(Amounts in millions of US dollars, unless otherwise stated)

7. INVENTORIES

	December 31, 2006
Raw materials	360
Work-in-progress	124
Finished goods and goods for resale	204
	688

8. PROPERTY, PLANT AND EQUIPMENT, NET

	Gross carrying value	Accumulated depreciation	Net carrying value
Land and buildings	1,395	(714)	681
Mineral license	23	—	23
Machinery and equipment	3,551	(1,961)	1,590
Transportation equipment	173	(109)	64
Fixtures and fittings	107	(44)	63
Construction-in-progress	243	—	243
Advance payments for property, plant and equipment	100	—	100
Balance as of December 31, 2006	**5,592**	**(2,828)**	**2,764**

Depreciation expense for the year ended December 31, 2006 amounted to USD 177 million.

The capitalized borrowing costs for the year ended December 31, 2006 amounted to USD 8 million.

In December 2006, the Group acquired at a state auction an exploration and development license for the Prioskolskoe iron ore deposit located in the Kurskaya region, the Russian Federation, expiring in 2026. The carrying value of this license was USD 23 million as of December 31, 2006.

9. INVESTMENTS IN AFFILIATES

The Group's equity method investments in affiliates as of December 31, 2006 comprised the following:

		Investment carrying value	Ownership and voting interest, %
		December 31,	
Affiliate	**Registered in**	**2006**	**2006**
Carrying value of investments			
LLC M-Port	Russia	46	50%
CJSC Kazankovskaya Mine	Russia	33	50%
LLC MMK Trans	Russia	5	50%
Loans provided to affiliates			
CJSC Kazankovskaya Mine	Russia	39	
		123	

During the year ended December 31, 2006, LLC M-Port issued additional shares, 50% of which were acquired by the Group for a consideration of USD 5 million. As a result of the transaction the Group's share in the net assets of the affiliate increased by USD 5 million, while the Group's share in the affiliate remained the same.

As of December 31, 2006, the Group's effective ownership in OJSC VTSP was 47%.

(Amounts in millions of US dollars, unless otherwise stated)

As of December 31, 2006, the Group provided CJSC Kazankovskaya Mine with a total of USD 39 million in unsecured loans with maturity in December 2013. These loans bear interest of 10% per annum. As of December 31, 2006, outstanding amount of loans provided included accrued interest of USD 4 million.

During the year ended December 31, 2006, the Group received dividends of USD 3 million from LLC MMK Trans.

10. OTHER INTANGIBLE ASSETS, NET

	Gross carrying value	Accumulated amortization	Net carrying value
Licenses	33	(9)	24
Purchased software	24	(10)	14
Other intangibles	6	(1)	5
Balance as of December 31, 2006	**63**	**(20)**	**43**

Amortization expense for licenses, purchased software and other intangibles for the year ended December 31, 2006 amounted to USD 11 million.

The estimated amortization expense for each of the next five years and thereafter is as follows:

Year ended December 31,	
2007	11
2008	7
2009	4
2010	3
2011	2
Thereafter	16
	43

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

11. OTHER LONG-TERM ASSETS

	December 31, 2006
Loans provided	6
Restricted cash	5
Loans to employees	1
	12

(Amounts in millions of US dollars, unless otherwise stated)

12. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM DEBT

	Type of interest rate	Annual interest rate (actual as of December 31, 2006)	December 31, 2006
Short-term borrowings:			
Secured loans, USD	Floating	6%	226
Secured loans, RUR	Fixed	10%	6
Unsecured loans, RUR	Floating	8%	17
Unsecured loans, RUR	Fixed	12%	1
			250
Current portion of long-term debt:			
Unsecured corporate bonds, USD	Fixed	9%	4
Secured loans, RUR	Fixed	11%	1
Unsecured loans, USD	Floating	6%	98
Unsecured loans, RUR	Floating	8%	10
Unsecured loans, RUR	Fixed	9%	7
Unsecured loans, USD	Fixed	5%	2
Unsecured loans, EUR	Fixed	6%	1
			123
			373

The weighted average interest rate of the RUR-denominated short-term borrowings as of December 31, 2006 was 9%. The weighted average interest rate of the USD-denominated short-term borrowings as of December 31, 2006 was 6%.

As of December 31, 2006, short-term borrowings were secured by the Group's property, plant and equipment with a net carrying amount of USD 1 million and inventory of USD 9 million.

13. LONG-TERM DEBT, NET OF CURRENT PORTION

	Type of interest rate	Annual interest rate (actual as of December 31, 2006)	December 31, 2006
Unsecured corporate bonds, USD	Fixed	9%	299
Secured loans, RUR	Fixed	12%	1
Unsecured loans, USD	Floating	6%	257
Unsecured loans, USD	Fixed	5%	10
Unsecured loans, RUR	Fixed	10%	5
Unsecured loans, EUR	Fixed	6%	3
Unsecured loans, RUR	Floating	7%	2
			577

Credit facilities

The most significant debt provided by bank financing included credit line facilities from certain Russian and foreign banks. As of December 31, 2006, the total unused portion of all credit facilities was USD 246 million.

The information provided below refers to total long-term debt, including its current portion, identified in Note 12.

Corporate bonds

In October 2003, MMK Finance S.A., a wholly-owned subsidiary of the Group, issued on the Luxembourg Stock Exchange USD 300 million of 8% notes at an issue price of 98.99 percent, due in October 2008. The notes are fully, unconditionally and irrevocably guaranteed by the Parent Company. Interest payments on the notes are due semi-annually in equal installments on April 21 and October 21 of each year, commencing April 21, 2004. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. For the year ended December 31, 2006, interest payments on these notes amounted to USD 24 million per annum.

Loans

In 2006, foreign banks provided USD-denominated loans, bearing interest at LIBOR+1.00% (6.35% as of December 31, 2006) per annum with maturity in June 2009. As of December 31, 2006, the outstanding balance was USD 144 million.

In 2005, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.25% (5.62% as of December 31, 2006), LIBOR+0.30% (5.67% as of December 31, 2006) and 4.05% per annum maturing serially from 2009 to 2011. The commitment fees are from 0.07% to 0.08% per annum on the undrawn facilities. As of December 31, 2006, the outstanding balance of these loans was USD 70 million.

In 2004, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.18% (5.56% as of December 31, 2006), LIBOR+0.25% (5.62% as of December 31, 2006) and LIBOR+1.20% (6.20% as of December 31, 2006) per annum maturing serially from 2010 to 2011. The commitment fees are from 0.08% to 0.10% per annum on the undrawn facilities. As of December 31, 2006, the outstanding balance of these loans was USD 103 million.

In 2003, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.30% (5.67% as of December 31, 2006), LIBOR+0.45% (5.82% as of December 31, 2006) and LIBOR+0.75% (6.12% as of December 31, 2006) per annum maturing serially from 2008 to 2011. The commitment fees are from 0.10% to 0.20% per annum on the undrawn facilities. As of December 31, 2006, the outstanding balance of these loans was USD 48 million.

In 2002, foreign bank provided a USD-denominated loan, bearing interest at LIBOR+0.80% (5.91% as of December 31, 2006) per annum with maturity in June 2007. The commitment fee is 0.50% per annum on the undrawn facility. As of December 31, 2006, the outstanding balance of this loan was USD 3 million.

The bank loans are subject to certain restrictive covenants, including, but not limited to:

- The ratio of consolidated debt/consolidated EBITDA should not exceed 3.5:1; and
- The ratio of consolidated EBITDA/consolidated debt service should not be less than 3:1.

As of December 31, 2006, loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 2 million and inventory of USD 2 million.

(Amounts in millions of US dollars, unless otherwise stated)

Debt repayment schedule

Year ended December 31,	
2007 (presented as current portion of long-term debt, Note 12)	123
2008	421
2009	88
2010	47
2011 and thereafter	21
	700

14. CAPITAL LEASE OBLIGATIONS

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2006:

Year ended December 31,	
2007	31
2008	18
2009	10
2010	4
2011	2
Total minimum lease payments (undiscounted)	**65**
Less amount representing interest	(11)
Present value of net minimum lease payments	**54**
Less current portion of long-term capital lease obligations	(25)
Long-term capital lease obligations	**29**

As of December 31, 2006, leased assets with a net carrying amount of USD 72 million were included in property, plant and equipment as follows:

	Gross carrying value	Accumulated depreciation	Net carrying value
Machinery and equipment	76	(12)	64
Construction-in-progress	8	—	8
Balance as of December 31, 2006	**84**	**(12)**	**72**

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December, 31 2006
Trade accounts payable	225
Advances from customers	191
Dividends payable	20
Other taxes payable	37
Other current liabilities	72
	545

16. EMPLOYEE BENEFITS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 59 million for the year ended December 31, 2006.

(Amounts in millions of US dollars, unless otherwise stated)

In addition, the Group makes monthly contributions to a non-government pension fund Sotsialnaya Zashchita Starosti where its employees have individual accumulation agreements with the fund. The Group has the ability to exercise significant influence over the financial and operating policy decisions of the fund through positions that certain directors of the Group have on the board of directors of the fund. The monthly contribution made by the Group is equal to the employee's contribution, unless the employee is a male aged between 55 and 60, or a female aged between 50 and 55, in which case the contribution will be 1.5 times the employee's contribution. For the year ended December 31, 2006, the maximum monthly contributions by the Group for each employee were RUR 6,000 (USD 221). The Group's total contributions to the fund amounted to USD 5.5 million for the year ended December 31, 2006.

Defined benefit plan

The Group has a defined benefit plan in favour of employees who retired prior to April 1, 2001. Effective April 1, 2001, no employees hired after that date were allowed to participate in the plan. Pensions from this defined benefit plan are administered by the independent charity fund BOF Metallurg.

Those employees receive lifetime pension payments varying from RUR 250 (USD 9.19) to RUR 450 (USD 16.55) per month depending on the employee's actual years of services and qualifications.

For the year ended December 31, 2006, the Group made monthly payments to the fund of RUR 389 (USD 14.30) per retiree, which were then distributed by the fund to the retirees.

As of December 31, 2006, principal actuarial assumptions used in determining the projected benefit obligation and net periodic pension expense were as follows:

	December 31, 2006
Discount rate	9.0%
Future pension benefit increases	8.4%
Average life expectancy of members from date of retirement	10.4

The change in the projected benefit obligations is presented in the following table:

	2006
Projected benefit obligations at beginning of the year	26
Interest cost	2
Actuarial losses	3
Benefit payments during the year	(3)
Foreign exchange losses	2
Unfunded status of the plan at end of the year	**30**

The fund does not hold any assets set aside for the benefit of retirees under this plan.

The accumulated benefit obligation as of December 31, 2006 was as follows:

	December 31, 2006
Accumulated benefit obligations	**30**

(Amounts in millions of US dollars, unless otherwise stated)

The components of the net periodic benefit costs for the year ended December 31, 2006 were as follows:

	2006
Interest cost	2
Actuarial losses	3
Foreign exchange losses	2
	7

Net periodic benefit costs were recognized as part of administrative expenses in the consolidated statement of operations and comprehensive income.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows:

Year ended December 31,	
2007	3
2008	3
2009	3
2010	2
2011	2
2012-2016	8
Thereafter	9
	30

17. SHAREHOLDERS' EQUITY

Common stock

As of December 31, 2006, the Parent Company had 10,630,222 thousand authorized, issued and outstanding common shares with a par value of RUR 1 each.

Treasury stock

As of December 31, 2006, the Group held in treasury 485,062 thousand issued common shares of the Parent Company.

All treasury stock is recorded at cost.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

Dividends

Year ending December 31, 2006

On November 28, 2006, the Parent Company declared an additional interim dividend of RUR 0.910 (USD 0.035) per common share in respect of the nine months ended September 30, 2006 representing a total dividend of USD 366 million. Of this total, USD 16 million was attributable to Group entities.

On August 29, 2006, the Parent Company declared an additional interim dividend of RUR 0.815 (USD 0.030) per common share in respect of the six months ended June 30, 2006 representing a total dividend of USD 324 million. Of this total, USD 14 million was attributable to Group entities.

On May 26, 2006, the Parent Company declared an interim dividend of RUR 0.593 (USD 0.022) per common share in respect of the three months ended March 31, 2006 representing a total dividend of USD 233 million. Of this total, USD 10 million was attributable to Group entities.

Year ending December 31, 2005

On April 21, 2006, the Parent Company declared a final dividend of RUR 0.532 (USD 0.019) per common share in respect of the year ended December 31, 2005 representing a total dividend of USD 233 million. Of this total, USD 10 million was attributable to Group entities.

18. EARNINGS PER COMMON SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during the year. Diluted net income per common share assumes the exercise of stock options, the vesting of restricted stock and the conversion of preferred stock, provided in each case the effect is dilutive.

The calculation of basic and diluted earnings per common share for the year ended December 31, 2006 was as follows:

	2006
Net income applicable to common stock	1,426
Weighted average number of common shares outstanding (in thousands):	
Basic	10,160,990
Diluted	10,160,990
Earnings per common share (USD):	
Basic	0.140
Diluted	0.140

There were no dilutive securities issued as of December 31, 2006.

(Amounts in millions of US dollars, unless otherwise stated)

19. NET REVENUE

By product	2006
Rolled steel	3,752
Assorted rolled products	604
Galvanized steel	377
Hardware products	283
Tin plated steel	254
Band	251
Galvanized steel with polymeric coating	168
Formed section	127
Coking production	113
Slabs	107
Tubes	49
Wire, sling, bracing	30
Others	309
	6,424

By customer destination	2006
The Russian Federation and CIS	62%
Turkey	8%
Iran	5%
Italy	5%
USA	3%
India	2%
China	1%
Others (countries each representing less than 2% of total net revenue)	14%
	100%

20. OTHER OPERATING INCOME, NET

	2006
Net gain on sales of other assets	24
Change in allowance for doubtful accounts receivable	8
Net gain on trading securities	2
Other operating gain, net	5
	39

(Amounts in millions of US dollars, unless otherwise stated)

21. INCOME TAXES

The Group's provision for income taxes attributable to different tax jurisdictions for the year ended December 31, 2006 was:

	2006
Current provision for income tax:	
The Russian Federation	460
Switzerland	1
Deferred income tax expense:	
The Russian Federation	7
Total income tax expense	**468**

The provision for income taxes is different from that which would be obtained by applying the Russian Federation statutory income tax rate of 24% to net income before income tax and minority interest. The items causing this difference are as follows:

	2006
Statutory rate applied to income before income tax and minority interest	455
Adjustments due to:	
Expenses not deductible for tax purposes	12
Effect of dividends paid within the Group entities	4
Currency exchange and translation differences	(3)
Income tax expense	**468**

Deferred income tax assets and liabilities are comprised of differences arising between the tax and accounting bases of the following assets and liabilities:

	December 31, 2006
Inventories	18
Loans	15
Accounts payable	12
Accounts receivable	1
Gross deferred income tax assets	46
Property, plant and equipment	(41)
Inventories	(10)
Investments	(8)
Accounts receivable	(2)
Gross deferred income tax liabilities	(61)
Net deferred income tax liabilities	**(15)**

(Amounts in millions of US dollars, unless otherwise stated)

Deferred income tax balances are classified in the consolidated balance sheet as follows:

	December 31, 2006
Current deferred income tax assets	36
Current deferred income tax liabilities	(11)
Long-term deferred income tax assets	10
Long-term deferred income tax liabilities	(50)
Net deferred income tax liabilities	**(15)**

For the year ended December 31, 2006, statutory retained earnings of the Group's foreign subsidiaries amounted to USD 21 million, on which deferred income tax of USD 1 million has not been recognised because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested.

In accordance with FAS No. 52 and FAS No. 109 deferred tax assets and liabilities were not recognized for temporary differences arising from the remeasurement of the local currency into the functional currency using historical exchange rates. Also in accordance with FAS No. 109 no deferred tax assets or liabilities were recognized for the effect of tax indexation of property, plant and equipment.

Based upon the level of historical taxable income and projections for the future taxable income over the periods in which the deferred income tax assets are deductible, management of the Group believes it is more likely than not that Group will realize the benefits of the deductible differences. Accordingly, no valuation allowances have been provided against deferred tax assets as of December 31, 2006.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value of financial instruments

The estimated fair value of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material impact on the estimated fair values.

As of December 31, 2006, the estimated fair value of financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable, approximates their carrying value due to the short-term nature of these instruments. As of December 31, 2006, USD 300 million of corporate bonds due in 2008 have a fair value of 102.50% or USD 308 million. The fair value of other fixed-rate debt including capital lease obligations and floating-rate debt approximates its carrying value.

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and from movements in interest rates and foreign exchange rates. The Group does not anticipate non-performance by counterparties. The Group generally does not require collateral or other security to support financial instruments with credit risk.

Financial instruments that potentially subject the Group to significant credit risk primarily consist of cash and cash equivalents, bank deposits and accounts receivable.

The Group has bank accounts, held in OJSC Credit Ural Bank ("OJSC CUB"), a related party of the Group. In addition the Group classifies promissory notes, purchased from OJSC CUB, as cash equivalents. Also the Group holds significant amounts of cash in bank deposits in Russian banks. To reduce risk the Group performs credit risk exposure evaluations for all banks in which the Group holds bank deposits on a monthly basis.

The Group sells its products to a number of customers globally. The Group grants credit to its customers based on an evaluation of each customer's financial position, in certain cases, without requiring guarantees or letters of credit, and thereafter monitors the exposure of potential losses from granting credit. To reduce risk the Group routinely assesses the financial strength of its customers and as a consequence, believes that its accounts receivable credit risk exposure is limited.

The maximum credit risk exposure is represented by the carrying amount of each financial asset and the contractual amounts of the financial guarantees and disclosed in Note 25.

23. RELATED PARTY TRANSACTIONS

Related parties include shareholders, key management personnel, affiliates and entities under common ownership, and entities over which the Group has the ability to exercise a significant influence.

Cash held at a related party bank is disclosed in Note 22. Issuance of guarantees in favor of related parties and receipt of guarantees from related parties transactions are disclosed in Note 25.

The following companies are considered to be related parties to the Group:

CJSC Profit

CJSC Profit, a company affiliated with the Group's controlling shareholders, purchases scrap metals from third parties and Group entities, reprocesses it and sells reprocessed scrap metals to the Group.

OJSC CUB

The Group holds certain deposits and current accounts in OJSC CUB, a commercial bank affiliated with the Group's controlling shareholders and the Group's management. During the reporting period the Group received financing from OJSC CUB in the form of loans for the Group's operating activities.

LLC MMK Trans

LLC MMK Trans, the Group's affiliate, provides transportation and forwarding services to the Group.

OJSC SKM

OJSC SKM, an insurance company affiliated with the Group's controlling shareholders and the Group's management, provides insurance services to the Group.

CJSC Kazankovskaya Mine

CJSC Kazankovskaya Mine, the Group's affiliate, holds a license to explore and mine coal deposits located in Kemerovo region, the Russian Federation. In 2006, the Group provided loans to CJSC Kazankovskaya Mine.

CJSC SKM-Invest

CJSC SKM-Invest, a leasing company affiliated with the Group's management, provides assets under capital lease to the Group.

(Amounts in millions of US dollars, unless otherwise stated)

Transactions	December 31, 2006
Revenue	
CJSC Profit	125
LLC MMK Trans	1
Total	126
Purchases	
CJSC Profit	771
LLC MMK Trans	24
Total	795
Loans provided	
OJSC Kazankovskaya Mine	20
OJSC SKM	2
Total	22
Loans repaid	
OJSC SKM	2
Other	1
Total	3
Bank charges	
OJSC CUB	12
Loans and overdrafts obtained	
OJSC CUB	36
Loans and overdrafts repaid	
OJSC CUB	40
Insurance payments	
OJSC SKM	37
Lease payments	
CJSC SKM-Invest	15

Balances	December 31, 2006
Cash and cash equivalents	
OJSC CUB	151
Loans and overdraft facilities	
OJSC CUB	6
Loans provided	
OJSC Kazankovskaya Mine	39
Accounts receivable	
CJSC Profit	13
LLC MMK Trans	4
Total	17
Accounts payable	
CJSC Profit	5
LLC MMK Trans	2
Total	7
Insurance payable	
OJSC SKM	1
Lease payable	
CJSC SKM-Invest	25

(Amounts in millions of US dollars, unless otherwise stated)

24. COMMITMENTS

In the course of carrying out its operations and other activities the Group enters into various agreements, which would require the Group to invest in or provide financing to specific projects or undertakings. In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses for the Group.

As of December 31, 2006, the Group had executed binding purchase agreements in the amount of approximately USD 2,834 million to subsequently acquire property, plant and equipment, and coking coal, zinc and aluminum, which are valid until 2011-2012.

In the past the Group has transferred social assets to local municipal authorities, however, the Group's management expects that the Group will continue to partly fund those social operations in the foreseeable future. These costs are recognized in the consolidated statement of operations and comprehensive income as incurred.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the year ended December 31, 2006 was approximately USD 23 million.

The Group leases land through operating lease agreements, which expire in various years through 2054. Future minimum lease payments due under non-cancelable operating lease agreements as of December 31, 2006 were as follows:

Due in one year	2
Due in the second year	1
Due thereafter	5
	8

25. CONTINGENCIES

Issued guarantees

As of December 31, 2006, the Group has provided financial guarantees for loans obtained by certain related and third party suppliers of the Group. The amounts related to the Group's financial guarantees were as follows:

Non-current	
Related parties	200
Third parties	37
	237
Current	
Related parties	1
Third parties	7
	8
Total	**245**

The Group's estimated maximum exposure to credit risk in the event of non-performance by other parties to these financial guarantees is represented by the contractual amounts disclosed above. The Group's management believes that the likelihood of material payments being required under these agreements is remote.

As of December 31, 2006, the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

Litigation

As of December 31, 2006, the Group was subject to various lawsuits, claims and proceedings related to matters incidental to its business. In the opinion of the Group's management as of December 31, 2006 there were no material unresolved adverse claims or other matters.

Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Tax contingencies

The tax system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental liabilities

The Group is obligated to undertake certain environmental remediation activities to ensure site restoration of a large iron ore quarry in the Magnitogorsk region, the Russian Federation. In accordance with permission granted by the Magnitogorsk Regional Ecological Committee, the Group utilizes production waste to fill the iron ore quarry where this waste does not exceed a prescribed toxicity level. Amounts of waste which exceed this toxicity level are not significant and are treated by licensed specialists. The future cost associated with the restoration of the iron ore quarry are not expected to be significant. These costs and other environmental compliance costs associated with air and water pollution are included in the normal operating expenses of the Group as they are incurred.

Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, management believes that there are no significant unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results or financial position of the Group.

26. DISPOSAL OF SUBSIDIARY

On March 10, 2006, the Group disposed of its entire operations of CJSC Shakhtouchastok Uregolskiy, a subsidiary of the Group, to OJSC Coal Company Yuzhniy Kuzbass for a cash consideration of USD 7 million. Net assets of CJSC Shakhtouchastok Uregolskiy comprised property, plant and equipment with a net carrying amount of USD 7 million.

27. SUBSEQUENT EVENTS

On January 18, 2007, the Parent Company registered an additional issuance of common stock of 1,450 million shares with a par value of RUR 1.

On January 31, 2007, the Group acquired a 51% stake in LLC Bakalskoe Rudoupravlenie for a cash consideration of USD 15 million.

On February 27, 2007, the Board of Directors of the Parent Company recommended a final dividend of RUR 0.891 (USD 0.034) per common share in respect of the year ended December 31, 2006 representing a total dividend of USD 362 million. Of this total, USD 16 million was attributable to Group entities. The final dividend is subject to approval by the shareholders at the Parent Company's annual general shareholders' meeting.

At the beginning of 2007, the Group entered into long-term purchase agreements in the amount of approximately USD 8,621 million to subsequently acquire coking coal, zinc, aluminum and iron ore until 2012-2017.

Open Joint Stock Company Magnitogorsk Iron & Steel Works and subsidiaries

Consolidated financial statements

(prepared in accordance with US GAAP)

As of and for the years ended December 31, 2005 and 2004

CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Open Joint Stock Company Magnitogorsk Iron & Steel Works

We have audited the accompanying consolidated balance sheets of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as of December 31, 2005 and 2004 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited.

KPMG Limited
March 17, 2006

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions of US dollars)

	Note	December 31, 2005	December 31, 2004
ASSETS			
Cash and cash equivalents	6	1,138	1,884
Bank deposits		—	209
Accounts receivable from third parties, less allowance for doubtful trade accounts of USD 20 million in 2005 and USD 23 million in 2004	7	569	734
Accounts receivable from affiliates and other related parties		3	23
Prepaid expenses		12	15
Inventories	8	568	455
Other investments	11	13	53
Current deferred income tax asset	16	26	24
Total current assets		**2,329**	**3,397**
Property, plant and equipment	9	2,288	1,883
Intangible assets	10	28	17
Investments in affiliates	24	90	7
Other investments	11	1	1
Bank deposits	18	99	103
Non-current deferred income tax asset	16	2	3
Other non-current assets	12	17	5
Total assets		**4,854**	**5,416**
Liabilities and Stockholders' Equity			
Short-term borrowings and current portion of long-term debt	13	171	847
Accounts and notes payable	17	460	403
Accounts payable to affiliates and other related parties		9	1
Current deferred income tax liability	16	26	11
Total current liabilities		**666**	**1,262**
Non-current portion of long-term debt	13	468	388
Employee benefits	15	26	23
Non-current deferred income tax liability	16	5	3
Other non-current liabilities		1	1
Total liabilities		**1,166**	**1,677**
Minority interest		**11**	**11**
Common stock (2005: 10,630,222 thousand stock of par value of 1 Russian ruble each, authorized and issued, 2004: 7,972,666 thousand stock of par value of 1 Russian ruble each, authorized and issued)		363	272
Preferred stock (2004: 2,657,556 thousand stock of par value of 1 Russian ruble each, authorized and issued)		—	91
Treasury stock at cost (common stock totaling 472,832 thousand shares and 401,345 thousand shares at December 31, 2005 and 2004, respectively)		(64)	(30)
Additional paid-in capital		247	247
Retained earnings		3,131	3,148
Total stockholders' equity	19	**3,677**	**3,728**
Commitments and contingencies (notes 26 and 27)			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**4,854**	**5,416**

The consolidated financial statements were approved on March 17, 2006 and signed by:

/s/ G. S. Senichev	/s/ A.S. Batrutdinov
G. S. Senichev	**A. S. Batrutdinov**
General Director	Deputy Chief Accountant

The accompanying notes to consolidated financial statements set out on pages F-43 to F-61 are an integral part of these statements

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In millions of US dollars except earnings per share)

	Note	Year ended December 31, 2005	2004
Gross revenue	5	5,380	4,829
Cost of products sold (exclusive of depreciation and amortization shown separately below)		(3,274)	(2,712)
Depreciation and amortization		(173)	(169)
Selling and distribution expenses		(237)	(128)
Administrative expenses		(262)	(213)
Social costs			
Social asset construction		—	(1)
Operation and maintenance expenses		(56)	(33)
Taxes other than income taxes		(59)	(48)
Change in allowance for doubtful accounts receivable and other provisions		11	10
Loss on disposal of property, plant and equipment		(15)	(28)
Other operating income		8	31
Income from operating activities		**1,323**	**1,538**
Equity in income from affiliates		—	1
Interest expense		(64)	(65)
Net foreign exchange (loss)/gain		(39)	78
Interest income		97	69
Income before tax and minority interest		**1,317**	**1,621**
Income taxes	16	(372)	(389)
Income before minority interest		**945**	**1,232**
Minority interest		2	—
Net income		**947**	**1,232**
Basic and fully diluted earnings per common share (USD)	20	**0.095**	**0.125**
Basic and fully diluted earnings per preferred share (USD)	20	**0.095**	**0.125**

The accompanying notes to consolidated financial statements set out on pages F-43 to F-61 are an integral part of these statements.

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of US dollars)

	Year ended December 31, 2005	Year ended December 31, 2004
Operating activities		
Net income	947	1,232
Adjustments for non-cash items:		
Depreciation and amortization	173	169
Loss on disposal of property, plant and equipment	15	28
Change in allowance for doubtful accounts receivable and other provisions	(11)	(10)
Gain on disposal of investments	(8)	(8)
Deferred tax expense	13	4
Equity in income of affiliate companies	—	(1)
Minority interest	(2)	—
Changes in operating assets and liabilities:		
Increase in inventories	(109)	(144)
Decrease/(increase) in trade and other receivables	181	(389)
Increase in trade and other payables	49	122
Increase in income taxes payable	7	7
Net cash provided by operating activities	**1,255**	**1,010**
Investing activities		
Proceeds from sale of property, plant and equipment	16	3
Proceeds obtained from bank deposits	200	(312)
Acquisition of investments in affiliates	(44)	—
Acquisition of property, plant and equipment	(562)	(395)
Acquisition of intangible assets	(18)	(12)
Acquisition of subsidiaries and minority interest less cash acquired	(52)	(3)
Net cash flow from other investments	48	6
Net cash used in investing activities	**(412)**	**(713)**
Financing activities		
Proceeds from borrowings	1,319	1,357
Repayments of borrowings	(1,900)	(740)
Net repayment of bank overdrafts	—	(47)
Acquisition of treasury stock	(34)	(39)
Proceeds from re-issuance of treasury stock, net of tax paid	—	236
Payments made under capital lease	(25)	(10)
Dividends paid	(947)	(14)
Net cash (used in)/provided by financing activities	**(1,587)**	**743**
Effect of exchange rate changes on cash and cash equivalents	(2)	20
Net (decrease)/increase in cash and cash equivalents	**(746)**	**1,060**
Cash and cash equivalents at beginning of year	**1,884**	**824**
Cash and cash equivalents at year end	**1,138**	**1,884**
Supplementary information		
Interest paid	61	45
Income tax paid	352	448

The accompanying notes to consolidated financial statements set out on pages F-43 to F-61 are an integral part of these statements.

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions of US dollars)

	Common stock	Preferred stock	Common treasury stock	Preferred treasury stock	Additional paid-in capital	Retained earnings	Total
Balance at January 1, 2004	272	91	(19)	—	39	1,930	2,313
Acquisition of treasury stock	—	—	(12)	(27)	—	—	(39)
Re-issuance of treasury stock, net of tax effect of USD 70 million	—	—	20	8	208	—	236
Dividends	—	—	—	—	—	(14)	(14)
Net income	—	—	—	—	—	1,232	1,232
Balance at December 31, 2004	**272**	**91**	**(11)**	**(19)**	**247**	**3,148**	**3,728**
Acquisition of treasury stock	—	—	(13)	(21)	—	—	(34)
Share conversion	91	(91)	(40)	40	—	—	—
Dividends	—	—	—	—	—	(964)	(964)
Net income	—	—	—	—	—	947	947
Balance at December 31, 2005	**363**	**—**	**(64)**	**—**	**247**	**3,131**	**3,677**

The accompanying notes to consolidated financial statements set out on pages F-43 to F-61 are an integral part of these statements.

1. BACKGROUND

(a) Organisation and operations

The consolidated financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries ("the Group") comprise the parent company Open Joint Stock Company Magnitogorsk Iron & Steel Works ("MMK" or "the Parent Company") and its 61 subsidiaries. The Parent Company is an open joint stock company as defined in the Civil Code of the Russian Federation. The head office of the Group is located at:

Ulitsa Kirova 93
455002 Magnitogorsk,
Russia

The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on October 17, 1992 as part of the Russian Federation privatisation program. The principal activity of the Group is the production of ferrous metal products at the Parent Company's plant located in the city of Magnitogorsk in the Chelyabinsk region of the Russian Federation. The Group's products are sold in the Russian Federation and abroad. The subsidiaries are mainly involved in the various sub-processes within the production cycle of the ferrous metal products or in the distribution of the products.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying financial statements have been prepared in compliance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Principles of consolidation

The consolidated financial statements include the financial statements of MMK, its subsidiaries and variable interest entities where the Group holds a controlling financial interest other than through voting rights.

(c) Historical cost basis

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investments held-for-trading and investments available-for-sale.

(d) Foreign currency translation

The national currency of the Russian Federation is the Russian Rouble. The Group has assessed its operations in the Russian Federation and determined its functional currency to be US dollars for financial reporting. The US dollar is also the reporting currency for the Group under US GAAP.

Monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in the consolidated statement of income.

As of December 31, 2005 and 2004, exchange rates of 28.78 and 27.75 Russian rubles to the US dollar, respectively, have been used for translation purposes. The annual weighted average exchange rate was 28.26 and 28.83 Russian rubles to the US dollar for the years ended December 31, 2005 and 2004, respectively.

The Russian ruble is not readily convertible outside the Russian Federation. Accordingly, the translation of amounts recorded in Russian rubles into US dollars should not be construed as a representation that the Russian ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(e) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (refer note 1(b)). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(f) Use of estimates

The preparation of the consolidated financial statements requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill; valuation allowances for receivables, inventories and deferred income tax assets. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer accounting policy (c)).

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Plant and equipment acquired by way of capital lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (refer accounting policy (c)).

(iii) Depreciation

Depreciation is charged to the statement of income on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

(In millions of US dollars, unless otherwise stated)

The following useful lives have been applied to depreciated assets:

Buildings	33–44 years
Machinery and equipment	17–32 years
Transportation equipment	8–22 years
Fixtures and fittings	8–14 years

(b) Goodwill and other intangible assets

Goodwill represents the excess of the costs over the fair value of the assets of the businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with finite useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ("Statement 144").

(c) Impairment of long lived assets

In accordance with Statement 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

(d) Trade and other receivables

Trade accounts receivable are recorded at invoiced amounts and do not bear interest. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable balances. The Group reviews its allowance for doubtful accounts monthly. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers.

(e) Inventories

Inventories are stated at the lower of cost or market value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and liquid promissory notes with original maturities of less than three months. Cash funds which are subject to restrictions on their immediate use are not considered cash equivalents.

(g) Investment securities

The Group classifies its debt securities in one of three categories: trading, available-for-sale or held-to-maturity and its equity securities as trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the short term. Held-to-maturity debt securities are those securities in which the Group has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Group considers whether it has the ability and intent to hold the investment until the market price recovers and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

(h) Short-term borrowings and long-term debt

Short-term borrowings and long-term debt are initially recorded at the value of the net proceeds received. Any difference between the net proceeds and the redemption value is recognised in the consolidated income statement over the term of the borrowing on an effective interest basis.

(i) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the consolidated statement of income as incurred.

(ii) Defined benefit plans

The Group's net obligations in respect of defined benefit pension and healthcare plans are calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine the present value, and the fair values of any plan assets are deducted. The discount rate is the yield on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a suitably qualified expert using the projected unit credit method.

(j) Accrued and contingent liabilities

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(k) Trade and other payables

Trade and other payables are stated at their cost.

(l) Revenue recognition

(i) Goods sold

The Group recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(ii) Interest income

Interest income is recognized in the consolidated statement of income as earned.

(m) Social costs

(i) Social construction costs

Capital expenditure of a social nature which benefits the community as a whole and is not expected to bring significant future economic benefits to the Group is recognized in the consolidated statement of income as incurred.

(ii) Operation and maintenance expenses

Expenditure related to the operation and maintenance of sports complexes, holiday and recreational facilities, medical centres, public housing, kindergartens and restaurants are recognized in the consolidated statement of income as incurred.

(n) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with SFAS No. 52 and SFAS No. 109 *Accounting for Income Taxes*, deferred tax assets and liabilities are not recognized for temporary differences arising from the re-measurement of the local currency into the functional currency using historical exchange rates. Also, in accordance with SFAS No. 109, no deferred tax assets or liabilities are recognized for the effects of tax indexation of property, plant and equipment. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of income in the reporting period that includes the enactment date. Deferred income tax assets and liabilities arising in different tax jurisdictions are not offset.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

4. SEGMENT INFORMATION

The Group predominantly produces iron and steel products. The revenues from the sale of these products constitute more than 95% of the total revenues. An analysis of sales by product and the location of the end customers is included in note 5. Geographically, all significant assets, production and management/administrative facilities are located in Magnitogorsk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In millions of US dollars, unless otherwise stated)

5. GROSS REVENUE

	Year ended December 31, 2005	Year ended December 31, 2004
Rolled steel	3,165	2,853
Assorted rolled products	341	365
Galvanized steel	338	322
Tin plated steel	295	217
Band	274	251
Galvanized steel whith polymeric coating	148	50
Slabs	140	258
Formed section	112	73
Metae	117	121
Coking production	102	66
Wire, sling, bracing	71	80
Tubes	39	45
Other	238	128
	5,380	**4,829**

Percentage of total revenue by location of the end customer

	Year ended December 31, 2005	Year ended December 31, 2004
Russia and Commonwealth of Independent States ("CIS")	61%	55%
China	8%	6%
Italy	3%	6%
Turkey	6%	5%
Taiwan	1%	4%
India	4%	3%
USA	1%	3%
Iran	4%	2%
Other (countries each representing less than 2% of total revenue)	12%	16%
	100%	**100%**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise local and foreign currency bank balances, call deposits and bank promissory notes.

	December 31, 2005	December 31, 2004
RUR denominated Russian bank deposits	898	1,619
RUR bank accounts	140	142
USD bank deposits	41	61
EUR bank deposits	20	—
USD bank accounts	23	29
CHF bank accounts	2	—
EUR denominated liquid bank promissory notes	—	14
USD denominated liquid bank promissory notes	4	—
Other RUR denominated cash equivalents	6	14
EUR bank accounts	4	5
Cash and cash equivalents per balance sheet	**1,138**	**1,884**

(In millions of US dollars, unless otherwise stated)

7. ACCOUNTS RECEIVABLE FROM THIRD PARTIES

	December 31, 2005	December 31, 2004
Trade accounts receivable	247	470
VAT receivable	201	184
Advances paid	45	59
Interest receivable	67	15
Other receivables	29	29
	589	757
Allowance for doubtful trade accounts receivable	(20)	(23)
	569	**734**

8. INVENTORIES

	December 31, 2005	December 31, 2004
Raw materials and consumables	302	319
Work in progress	112	118
Finished goods and goods for resale	164	31
	578	468
Provision for inventory obsolescence	(10)	(13)
	568	**455**

9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	Carrying Value
Land and buildings	1,276	(686)	590
Machinery and equipment	3,059	(1,875)	1,184
Transportation equipment	165	(105)	60
Fixtures and fittings	85	(31)	54
Assets under construction	400	—	400
Balance at December 31, 2005	**4,985**	**(2,697)**	**2,288**
Land and buildings	1,230	(662)	568
Machinery and equipment	2,828	(1,800)	1,028
Transportation equipment	152	(97)	55
Fixtures and fittings	60	(24)	36
Assets under construction	196	—	196
Balance at December 31, 2004	**4,466**	**(2,583)**	**1,883**

In 2005 the depreciation of property, plant and equipment amounted to USD 165 million (2004: USD 152 million), of which USD 159 million (2004: USD 146 million) related to productive assets.

Borrowing costs

In 2005 USD 3 million of borrowing costs were capitalised as part of the cost of qualifying assets (2004: USD 1 million).

(In millions of US dollars, unless otherwise stated)

10. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Carrying value
Licenses and other intangibles	49	(23)	26
Goodwill	2	—	2
Balance at December 31, 2005	**51**	**(23)**	**28**
Licenses and other intangibles	31	(15)	16
Goodwill	1	—	1
Balance at December 31, 2004	**32**	**(15)**	**17**

11. OTHER INVESTMENTS

	December 31, 2005	December 31, 2004
Current investments		
Equity securities held for trading	3	2
Debt securities held for trading	9	16
Promissory notes held to maturity	1	35
	13	**53**
Non-current investments		
Equity securities available-for-sale	**1**	**1**

Net realised gains on trading securities during the year ended December 31, 2005 were USD 8 million (2004: USD 8 million) and are included in other operating income in the consolidated statement of income. Debt securities held for trading are subject to the price volatility associated with any interest bearing instrument.

12. OTHER NON-CURRENT ASSETS

	December 31, 2005	December 31, 2004
Restricted cash	2	4
Loans to employees	1	1
Loan provided to affiliate	14	—
	17	**5**

Restricted cash comprises cash held in certain bank accounts of the Group, which has been pledged as collateral for letters of credit issued on the Group's behalf for the purpose of acquiring equipment.

(In millions of US dollars, unless otherwise stated)

13. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

		Effective interest rate	2005	Effective interest rate	2004
Current liabilities					
Secured loans	– RUR, fixed	11%	10	7%	150
	– RUR, variable	—	—	11%	4
	– USD, variable	5%	82	—	—
Unsecured loans	– RUR, fixed	11%	1	7%	430
	– USD, variable	—	—	4%	40
	– RUR, variable	8%	9	—	—
Current portion of unsecured Russian bond issues – RUR, fixed		—	—	9%	28
Current portion of unsecured bond issues – EUR, fixed		—	—	11%	148
	– USD, fixed	9%	4	9%	4
Current portion of secured loans – RUR, fixed		11%	4	12%	2
Current portion of secured loans – USD, variable		—	—	3%	3
Current portion of unsecured loans – USD, variable		5%	38	3%	16
	– RUR, fixed	10%	3	11%	2
Current portion of capital lease liabilities – RUR, fixed		15%	20	16%	20
			171		**847**
Non-current liabilities					
Secured loans	– RUR, fixed	11%	1	12%	3
	– USD, variable	—	—	3%	24
Unsecured loans	– USD, variable	5%	147	3%	39
	– USD, fixed	24%	1	—	—
	– EUR, fixed	6%	1	—	—
	– RUR, fixed	11%	1	—	—
Unsecured bonds issues – USD, fixed		9%	297	9%	296
Capital lease liabilities	– RUR, fixed	15%	20	15%	26
			468		**388**
Unused available borrowing facilities – USD, variable			224		92

The weighted average interest rate on short-term borrowings outstanding as at the balance sheet date was 7% (2004: 8%).

Long-term debt repayment schedule

		Total	Current portion	2007	2008	2009	2010	>2010
Secured bank loans – RUR, fixed		5	4	1	—	—	—	—
Unsecured loans	– USD, variable	185	38	45	40	31	28	3
	– USD, fixed	1	—	—	1	—	—	—
	– EUR, fixed	1	—	—	1	—	—	—
	– RUR, fixed	4	3	1	—	—	—	—
Unsecured bond issues – USD, fixed		301	4	—	297	—	—	—
Capital lease liabilities – RUR, fixed		40	20	13	4	3	—	—
		537	**69**	**60**	**343**	**34**	**28**	**3**

(In millions of US dollars, unless otherwise stated)

Capital lease assets and liabilities

Capital lease liabilities are payable as follows:

	2005			2004		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	24	4	20	25	5	20
Between one and five years	23	3	20	30	4	26
	47	**7**	**40**	**55**	**9**	**46**

Leased assets with a carrying amount of USD 57 million (2004: USD 54 million) were included in property, plant and equipment as follows:

	Cost	Accumulated depreciation	Carrying value
Machinery and equipment	59	(9)	50
Assets under construction	7	—	7
Balance at December 31, 2005	**66**	**(9)**	**57**
Balance at December 31, 2004	**60**	**(6)**	**54**

14. PLEDGES PROVIDED BY THE GROUP

As at the balance date the Group had pledged property, plant and equipment of USD 27 million and USD 8 million of inventory (2004: USD 241 million of property, plant and equipment and USD 6 million of inventory).

The Group is subject to the following pledges as at December 31, 2005:

	December 31,	
	2005	2004
Short-term		
Pledges provided for the debt of the Group	30	202
Long-term		
Pledges provided for the debt of the Group	5	45
	35	**247**

15. EMPLOYEE BENEFITS

Defined contribution obligations

The Group makes monthly contributions to a non-government pension fund "Sotsialnaya Zashchita Starosti" where the employee has an individual accumulation agreement with the fund.

The Group has the ability to exercise significant influence over the financial and operating policy decisions of the fund through positions that certain directors of the Group have on the board of directors of the fund.

The monthly contribution made by the Group is equal to the employee's contribution, unless the employee is a male aged between 55 and 60, or a female aged between 50 and 55, in which case the contribution will be 1.5 times the employee's contribution. The monthly contribution by the Group may not exceed RUR 4,000 (USD 141) per employee (2004: RUR 4,000 (USD 144) per employee). In 2005 contributions made by the Group to the fund were USD 2.9 million (2004: USD 2.7 million).

Russian Federation State Pension Fund

The Group pays into the Russian Federation State Pension Fund a percentage of each employee's wage based on a scale as established by the Russian Tax Code. In 2005 total payments made to the state pension fund totalled USD 51 million (2004: USD 38 million). These amounts are expensed when incurred and are recorded in taxes related to personnel expenses.

(In millions of US dollars, unless otherwise stated)

Defined benefit obligations

The Group also has a defined benefit plan in favour of employees who retired prior to 1 April 2000. Pensions from this defined benefit plan are administered by the independent charity fund, "BOF Metallurg".

The Group makes monthly payments to the fund of RUR 327 (USD 11.56) per retiree every month (2004: RUR 276 (USD 9.58), which are then distributed by the fund to retirees. The fund does not hold any assets set aside for the benefit of retirees under this plan.

	December 31,	
	2005	2004
Liability for defined benefit obligations	**26**	**23**

Benefit obligations recognized in the balance sheet:

	December 31,	
	2005	2004
Net benefit obligations at January 1, 2005	23	22
Payments made during the year	(3)	(3)
Expenses recognized in the statement of income	6	4
Net benefit obligations at December 31, 2005	**26**	**23**

The pension related expenses were as follows:

	December 31,	
	2005	2004
Interest costs	3	3
Actuarial loss/(gain)	4	(1)
Foreign exchange (gain)/loss	(1)	2
Total pension related expense	**6**	**4**

Current service costs and actuarial gains and losses are recognized in administrative expenses in the consolidated statement of income.

The principal actuarial assumptions used to calculate the retirement benefit liabilities at the balance sheet date were are follows:

	December 31,	
	2005	2004
Discount rate at December 31,	9.1%	10.6%
Future retirement benefit increases (based on RUR amounts)	8.5%	8.7%

Cash Flows

The benefits expected to be paid from the pension plan in 2006 are USD 3 million and in each year from 2007-2010 are USD 2 million per annum. The aggregate benefits expected to be paid during the five years from 2011-2015 are USD 7 million. The aggregate of the benefits expected to be paid after 2015 are USD 8 million. The expected benefits are based on the same assumptions used to measure the Group's benefit obligation at December 31, 2005.

(In millions of US dollars, unless otherwise stated)

16. TAXES

	December 31, 2005	December 31, 2004
Current tax expense		
Current year expense	359	385
	359	385
Deferred tax expense		
Origination and reversal of temporary differences	13	4
	372	**389**

In 2005 deferred tax originating from the acquisition of subsidiaries amounted to USD 3 million (2004: 0).

The following table is a reconciliation of the notional income tax at the Russian statutory tax rate applied to income before income taxes to total income taxes:

	December 31, 2005	December 31, 2004
Income before income taxes	1,317	1,621
Notional income tax at Russian statutory rate	316	389
Increase in income tax due to non-deductible items	56	1
Overprovided in prior years	—	(1)
Total income taxes	**372**	**389**

Deferred income tax assets and liabilities were comprised of differences arising between the carrying values of the following assets and liabilities:

	December 31, 2005	December 31, 2004
Inventories – cash basis tax accounting, provisions	5	1
Investments	2	3
Loans and borrowings	4	7
Trade and other accounts receivable	2	5
Trade and other accounts payable	15	10
Tax loss carryforwards	—	1
Gross deferred income tax assets	28	27
Property, plant and equipment – depreciation	(5)	(2)
Investments	(2)	(1)
Inventories	(16)	(9)
Trade and other accounts receivable – cash basis tax accounting	(7)	(2)
Loans and borrowings	(1)	—
Gross deferred income tax liabilities	(31)	(14)
Net deferred income tax (liability)/asset	**(3)**	**13**

(In millions of US dollars, unless otherwise stated)

Deferred income tax balances were classified in the consolidated balance sheet as follows:

	December 31,	
	2005	2004
Current deferred income tax asset	26	24
Current deferred income tax liability	(26)	(11)
Non-current deferred income tax asset	2	3
Non-current deferred income tax liability	(5)	(3)
Net deferred income tax (liability)/asset	**(3)**	**13**

Retained earnings of foreign subsidiaries included USD 22 million (2004: USD 22 million) on which deferred income tax has not been provided for because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested.

In accordance with SFAS No. 52 and SFAS No. 109 *Accounting for Income Taxes*, deferred tax assets and liabilities are not recognized for temporary differences arising from the re-measurement of the local currency into the functional currency using historical exchange rates. Also, in accordance with SFAS No. 109, no deferred tax assets or liabilities are recognized for the effects of tax indexation of property, plant and equipment. These deferred tax assets and liabilities would be recognized in the event that the functional currency of MMK was subsequently determined to be the local currency.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible differences. Accordingly, no valuation allowances have been provided against deferred tax assets at December 31, 2005 and 2004.

17. ACCOUNTS AND NOTES PAYABLE

	December, 31	
	2005	2004
Trade accounts payable	161	166
Advances from customers	151	106
Income tax payable	18	11
Other taxes payable	54	44
Other current liabilities	76	76
	460	**403**

18. LONG-TERM BANK DEPOSITS

As at the balance sheet date the Group had long term subordinated cash deposit totalling USD 99 million (2004: USD 103 million) placed in a Russian bank, which is not available to be withdrawn from the bank until 15 December 2009.

19. STOCKHOLDERS' EQUITY

Common and preferred stock

As at the balance sheet date the authorised and issued share capital comprised common stock of 10,630,221,600 shares (2004: 7,972,665,600 shares).

During the year ended 31 December 2005 the Parent Company converted all non-redeemable non-cumulative preferred stock of 2,657,556,000 which existed at 31 December 2004 to a new class of preferred stock which was convertible to common stock at a ratio of 1:1. All preferred stock was subsequently converted to common stock during the year.

(In millions of US dollars, unless otherwise stated)

All stock has a par value of RUR 1. There was no unpaid stock as at the balance sheet date.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined in accordance with the legislation of the Russian Federation. At the balance sheet date reserves available for distribution, in accordance with Russian legislation, amounted to USD 1,935 million (2004: USD 1,949 million).

The following ordinary and preferred dividends were approved at the annual shareholders meeting on 22 April 2005 and the extraordinary shareholders meetings on 30 August 2005 and 29 November 2005:

	2005
RUR 2.662 per qualifying common stock	816
RUR 1.995 per preferred stock	189
	1,005

Voting rights of stockholders

The holders of fully paid common stock are entitled to one vote per share at the annual and general stockholder meetings of the Group.

Treasury stock

At the balance sheet date the Group held 472,831,549 shares of its own common stock (2004: 335,171,436 shares of its own common stock and 66,173,891 of its own preferred stock). The Group also controls the voting rights of a further 6,280,687,620 shares of its own common stock (2004: 4,298,295,194 shares of its own common stock and 2,000,731,570 of its own preferred stock), which subsidiaries of the Group hold in a trustee capacity under trust management agreements. Dividends accrue to the beneficial owners of the stock. Transactions with the stock held under the trust management agreements can only be performed after receiving express written instructions from the Founder of the trust.

20. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share as at December 31, 2005 and 2004 was based on the distributed and undistributed earnings attributable to common and preferred stockholders and the weighted average number of common shares and preferred shares outstanding during the years then ended, calculated as follows:

Net income attributable to common and preferred stockholders

	Year ended December 31,	
	2005	2004
Net income for the year	947	1,232
Dividends on common stock	(781)	—
Dividends on non-redeemable non-cumulative preferred stock	(183)	—
Undistributed earnings	**(17)**	**1,232**
Undistributed earnings attributable to common stockholders	**(17)**	**903**
Undistributed earnings attributable to preferred stockholders	**—**	**329**

Weighted average number of common stock

In thousands of shares	Year ended December 31, 2005	Year ended December 31, 2004
Common stock	8,637,055	7,972,666
Effect of own stock held	(386,125)	(773,928)
Weighted average number of common shares at December 31	**8,250,930**	**7,198,738**

Weighted average number of preferred stock

In thousands of shares	Year ended December 31, 2005	Year ended December 31, 2004
Preferred stock	1,993,167	2,657,556
Effect of own stock held	(62,446)	(32,434)
Weighted average number of preferred shares at December 31	**1,930,721**	**2,625,122**

Basic and diluted earnings per share – common stock

In USD per share	Year ended December 31, 2005	Year ended December 31, 2004
Distributed earnings	0.095	—
Undistributed earnings	—	0.125
	0.095	**0.125**

Basic and diluted earnings per share – preferred stock

In USD per share	Year ended December 31, 2005	Year ended December 31, 2004
Distributed earnings	0.095	—
Undistributed earnings	—	0.125
	0.095	**0.125**

21. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Financial instruments that potentially subject the Group to significant credit risk consist primarily of cash and cash equivalents, accounts receivable and bank deposits. The Group has bank accounts held in Credit Ural Bank, a related party of the Group. The Group also holds deposits in leading Russian banks, and uses promissory notes acquired from Credit Ural Bank as cash equivalents. Credit risk evaluations are performed for all banks in which the Group holds deposits, and all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. The maximum exposure to credit risk is represented by the carrying amount of each financial asset and the contractual amounts of the financial guarantees (refer note 27(i)). Refer also to note 22 "Concentration of risk".

Interest rate risk

The Group incurs interest rate risk primarily on loans and borrowings. The interest rate and terms of repayment of loans are disclosed in note 13. The Group borrows on both a fixed and variable interest rate basis. All variable interest rate loans and borrowings are re-priced on a monthly basis.

Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the US dollar. The currencies giving rise to this risk are primarily the Russian rouble and the euro.

Fair value

The Group estimates the fair values of its financial assets and liabilities as not being materially different from their carrying values. For receivables and payables with a remaining useful life of less than one year their carrying amount is deemed to reflect their fair value as the effect of the time value of money is not material. For loans and borrowings and all other financial instruments fair value is determined based on discounted future principal and interest cash flows applying market rates.

22. CONCENTRATION OF RISK

(i) Significant customer/ supplier

During 2005 the Group made sales of USD 678 million (2004: USD 1,475 million) to MMK Metal Limited, a customer which trades MMK steel on the export market. These sales represented 13% (2004: 31%) of the Group's total revenue. In addition, the Group purchased iron ore concentrate and pellets of USD 51 million (2004: USD 572 million) from MMK Metal Limited. As at the balance sheet date MMK Metal Limited owed the Group USD 80 million (2004: USD 335 million). In 2005 credit terms provided to MMK Metal Limited were extended to 180 days (2004: 90 days) from the date of delivery of steel products.

No other individual customer or supplier represented more than 10% of the Group's revenue during 2005 or 2004.

(ii) Significant deposits on account

As at the balance sheet date the Group held cash, cash equivalents and bank deposits amounting to USD 960 million (2004: USD 1,977 million) in a major Russian bank.

(iii) Significant guarantee

As at the balance sheet date the Group had provided a guarantee of USD 134 million (2004: USD 49 million) for a related party of the Group.

23. ACQUISITION OF SUBSIDIARIES

In July, October and December 2005 the Group acquired 78%, 15% and 3% effective ownership respectively of the voting rights in OAO Shelkovsky Zavod Spetzmontazhizdelie for USD 8 million.

In addition, a 100% voting interest in OOO MetAl was acquired by the Group for USD 44 million. In 2004 OOO MetAl had been considered by management to be a variable interest entity of the Group and was consolidated in the consolidated financial statements for the year ended 31 December 2004. The Company has not finalised allocation of the purchase price to the estimated fair values of assets and liabilities acquired.

24. ACQUISITION OF AFFILIATES

During 2005 the Group acquired 37% of the voting shares of OAO Vladivostok Trade Sea Port ("VTSP") for USD 41 million. These shares were subsequently contributed to OOO M-Port, a jointly controlled entity established during 2005. M-Port acquired a further 20% of the voting stock of VTSP. As at the balance sheet date the Group held an effective ownership in VTSP of 47%.

(In millions of US dollars, unless otherwise stated)

25. AFFILIATE AND OTHER RELATED PARTY TRANSACTIONS

As at the balance sheet date the Group had the following investments in affiliates:

	Country of incorporation	Ownership		Voting interest	
		2005	2004	2005	2004
OOO MMK Trans	Russia	50%	50%	50%	50%
M-Port	Russia	50%	—	50%	—
Kazankovskaya Mine	Russia	50%	—	50%	—

Affiliate and other related party transactions

The Group had the following related party transactions during the year with:

	December 31,	
Enterprises in which the Directors had a financial interest	2005	2004
Domestic sales of steel	78	65
Purchases of scrap metal	337	245
Loans and overdrafts obtained	24	21
Loans and overdrafts repaid	20	27
Bank charges	11	11
Lease payments	8	15
Insurance payments	30	31
Loan repaid	26	—
Loan provided	26	—

	December 31,	
Affiliates	2005	2004
Sales of steel	1	13
Purchases of freight services	17	19
Loans provided	15	2
Domestic purchases	10	12

As at the balance sheet date the Group had the following related party balances outstanding with:

	December 31,	
Enterprises in which the Directors had a financial interest	2005	2004
Cash and cash equivalents	44	85
Loans and overdraft facilities	9	5
Promissory notes receivable	—	30
Loans and borrowings	—	24
Trade payables	4	1
Advances received	2	—
Advances paid	—	21
Lease payable	18	19
Insurance payable	1	—

	December 31,	
Affiliates	2005	2004
Advances paid	3	2
Trade payables	2	—

26. COMMITMENTS

(i) Capital commitments

The Group is committed to capital expenditure of approximately USD 394 million (2004: USD 495 million).

(In millions of US dollars, unless otherwise stated)

(ii) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund these social programs for the foreseeable future. These costs are recorded in the year they are incurred.

27. CONTINGENCIES

(i) Financial guarantees

The Group has provided financial guarantees for loans obtained by certain related and third party suppliers of the Group. Amounts related to the Group's financial guarantees are as follows:

	2005	2004
Due to expire in more than 12 months		
Related party suppliers	156	31
Third party suppliers	20	—
Due to expire within 12 months		
Related party suppliers	5	49
Third party suppliers	2	—
	183	**80**

The Group's estimated maximum exposure to credit losses in the event of non-performance by the other parties to these financial guarantees is represented by the contractual amounts disclosed above. Assets of the Group were also pledged against loans advanced to related parties (refer note 14). Management believes that the likelihood of material payments being required under these agreements is remote. As at December 31, 2005 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(ii) Litigation

As at the balance sheet date the Group did not have any material unresolved claims against it.

(iii) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(iv) Environmental liabilities

The Group is obligated to undertake certain environmental remediation activities to ensure site restoration of a large iron ore quarry in the Magnitogorsk region. In accordance with permission granted by the Magnitogorsk Regional Ecological Committee, the Group utilises production waste to fill the iron ore quarry where this waste does not exceed a prescribed toxicity level. Amounts of waste which exceed this toxicity level are not significant and are treated by licensed specialists. The future cost associated with the restoration of the iron ore quarry are not expected to be significant. These costs and other environmental compliance costs associated with air and water pollution are included in the normal operating expenses of the Group as they are incurred.

Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, management believes that there are no significant unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results or financial position of the Group.

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