



NOVOLIPETSK STEEL

Offering of 420,000,000 Ordinary Shares in the form of Ordinary Shares and Global Depositary Shares Offer Price: \$1.45 per Ordinary Share and \$14.50 per GDS

We are OJSC Novolipetsk Steel, or NLMK, one of the largest steel producers in the Russian Federation, or Russia.

The Offering

One of our principal shareholders, which we refer to as the Selling Shareholder, is offering 420,000,000 common shares of NLMK, with a nominal value of 1 ruble per share, which we refer to as Shares, in an international simultaneous offering of Shares and global depositary shares, or GDSs, with each GDS representing 10 Shares. The GDSs are being offered in the United States to qualified institutional buyers, or QIBs, as defined in and in reliance on the exemption from the registration requirements of the U.S. Securities Act of 1933, or the U.S. Securities Act, provided by Rule 144A under the U.S. Securities Act, or Rule 144A, and outside the United States to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act, or Regulation S. The Shares are being offered in the Russian Federation and outside the United States to certain persons in offshore transactions in reliance on Regulation S. We will not receive any proceeds from the offering of Shares and GDSs by the Selling Shareholder. The GDSs will be evidenced by global depositary receipts, or GDRs.

The Selling Shareholder has granted to the Joint Bookrunners, on behalf of the Underwriters, an over-allotment option, exercisable until 30 days after the announcement of the offer price on December 9, 2005, to purchase or procure purchasers for up to 63,000,000 additional Shares in the form of GDSs, at the offer price referred to above and on the terms and conditions of the offering and solely to cover over-allotments, if any, and to cover short positions relating to stabilization activities.

The NLMK Shares

The Shares are listed for trading on the Russian Trading System Stock Exchange, or the RTS Stock Exchange, under the symbol "NLMK". Prior to the offering described herein, there has been no market for the GDSs and only a limited public market for the Shares. The trading price of our common shares on the RTS Stock Exchange will not necessarily be related to the offering price of the Shares and the GDSs.

Listing

Applications have been made (i) to the U.K. Financial Services Authority, or the U.K. Listing Authority, in its capacity as competent authority under the Financial Services and Markets Act 2000, or the FSMA, for a listing of up to 239,729,089 GDSs, consisting of up to 42,000,000 GDSs to be issued on the Closing Date, up to 6,300,000 additional GDSs to be issued pursuant to the over-allotment option, as described herein, and up to 191,429,089 additional GDSs to be issued from time to time against the deposit of Shares with Deutsche Bank Trust Company Americas, as depositary, to be admitted to the official list of the U.K. Listing Authority, or the Official List, and (ii) to the London Stock Exchange plc, or the London Stock Exchange, for such GDSs to be admitted to trading on the London Stock Exchange's EEA Regulated Market (as defined in the Investment Services Directive 91/22/EC), to which we refer as the Regulated Market. Application has also been made to have the Rule 144A GDSs (as defined in this prospectus) listed on The PORTAL Market of the NASDAQ Stock Market, Inc., or PORTAL. Conditional trading in the GDSs on the London Stock Exchange is expected to commence on a when and if issued basis on December 9, 2005. Admission of the GDSs to the Official List and to trading on the Regulated Market is expected to take place on December 15, 2005, following closing and settlement therefor on or around December 14, 2005, which we refer to as the Closing Date. **All dealings in the GDSs 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.** No application is currently intended to be made for the GDSs to be admitted to listing or dealt with on any other exchange.

Risk Factors

This investment involves a high degree of risk. For a discussion of certain risk factors that should be considered in connection with an investment in the Shares and GDSs, see "Risk Factors" beginning on page 7. The GDSs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Shares and the GDSs have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold within the United States, except, in the case of GDSs, to QIBs in reliance on Rule 144A or, in the case of Shares and GDSs, outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Shares and GDSs may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the Shares and GDSs, see "Description of the Global Depositary Shares" and "Plan of Distribution".

Delivery and Settlement

The Shares and GDSs are offered by the Underwriters, as named in "Plan of Distribution," when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. The GDSs will be issued in global form and will be evidenced by a Master Rule 144A GDR registered in the name of Cede & Co., as nominee for The Depository Trust Company, or DTC, and a Master Regulation S GDR, which, together with the Master Rule 144A GDR, we refer to as the Master GDSs, registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream. It is expected that delivery of the GDSs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. See "Settlement and Delivery" for settlement details for the GDSs and the Shares.

Joint Lead Managers and Joint Bookrunners

UBS Investment Bank

**Co-Lead Manager
Alfa Capital Markets**

Merrill Lynch International

Dated December 9, 2005

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus is based on information provided by us and other sources believed by us to be reliable. UBS Limited and Merrill Lynch International, the other Underwriters and their affiliates and any person acting on their behalf are not responsible for, and are not making any representation or warranty, express or implied, to you concerning our future performance or the accuracy or completeness of this prospectus.

This prospectus, including the financial information and the appendices included herein, comprises a prospectus given in compliance with the prospectus rules made under Section 73A of the FSMA by the U.K. Listing Authority, or the Prospectus Rules, for the purpose of giving information with regard to NLMK and its subsidiaries and the GDSs in connection with the application for admission of the GDSs to the Official List of the U.K. Listing Authority and to trading on the London Stock Exchange's Regulated Market.

We accept responsibility for the information contained in this prospectus, and, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

In making an investment decision regarding the Shares and GDSs offered hereby, you must rely on your own examination of our company and the terms of the offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. We have not, and the Underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and the information set forth in this prospectus may have changed since that date.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and GDSs. We are not, and the Underwriters are not, making any representation to any offeree or purchaser of the Shares and GDSs regarding the legality of an investment in the Shares and GDSs by such offeree or purchaser under appropriate investment or similar laws.

UBS Limited and Merrill Lynch International are acting exclusively for us and the Selling Shareholder and no one else in connection with the 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 the offering.

We obtained the market data used in this prospectus from internal surveys, industry sources and currently available information. The main sources for information on the steel industry were: (i) the International Iron and Steel Institute, an international steel industry body and a provider of statistical information on the global steel industry; (ii) the Federal Customs Service of the Russian Federation; (iii) Metall Expert, a Russian and CIS steel industry publication; (iv) Rosstat, the statistical agency of the Russian Federation; (v) Chermet Corporation, a provider of statistical information on the Russian steel industry; and (vi) OAO NIIBTMET, a Russian research institute which compiles statistical information on health and safety in the Russian metallurgical industry. We also obtained Russian macroeconomic and foreign exchange data from the Central Bank of the Russian Federation and we obtained market information on the price of our shares from RTS, a Russian stock exchange. We accept responsibility for having correctly reproduced information obtained from industry publications or public sources, and, so far as we are aware and have been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, you should keep in mind that we have not independently verified information we have obtained from industry and government sources. Certain market share information and other statements in this prospectus regarding the steel industry and our position relative to our competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect our best estimates based upon information obtained from trade and business organizations and associations and other contacts within the steel industry. This information from our internal estimates and surveys has not been verified by any independent sources.

The contents of our websites do not form any part of this prospectus.

The Selling Shareholder and the Underwriters reserve the right to reject any offer to purchase the Shares and GDSs in whole or in part and to sell to any prospective investor less than the full amount of the Shares and GDSs sought by such investor.

In connection with the offering, each of UBS Limited, Merrill Lynch International and any affiliate acting as an investor for its own account may take up the Shares and GDSs and in that capacity may retain, purchase or

sell for its own account such securities and any of our securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references in this document to the Shares and GDSs being offered or placed should be read as including any offering or placement of securities to UBS Limited, Merrill Lynch International and any affiliate acting in such capacity. Neither UBS Limited nor Merrill Lynch International intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this prospectus and the offer and sale of the Shares and GDSs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe, any such restrictions. See “Description of the Global Depositary Shares” and “Plan of Distribution” elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Shares and GDSs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the Shares and GDSs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. We are not, and the Underwriters are not, making an offer to sell the Shares and GDSs or a solicitation of an offer to buy any of the Shares and GDSs to any person in any jurisdiction except where such an offer or solicitation is permitted.

The Shares and GDSs have not been approved or disapproved by the U.S. Securities and Exchange Commission, or the SEC, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Shares and GDSs or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO U.K. AND EEA INVESTORS

This prospectus and the offering are only addressed to and directed at persons in member states of the European Economic Area (“EEA”), who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (“Qualified Investors”). In addition, in the United Kingdom, this prospectus is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, or (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. The Shares and the GDSs are only available to, and any investment or investment activity to which this prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

This prospectus has been prepared on the basis that once it has been approved under the Prospectus Directive (2003/71/EC), all offers of GDSs (as well as the Shares offered hereunder) will be made pursuant to an exemption under the Prospectus Directive (2003/71/EC), as implemented in member states of the EEA from the requirement to produce a prospectus for offers of GDSs (as well as offers of Shares). Accordingly any person making or intending to make any offer within the EEA of Shares and GDSs which are the subject of the placement contemplated herein should only do so in circumstances in which no obligation arises for NLMK, the Selling Shareholder or any of the Underwriters to produce a prospectus for such offer. None of NLMK, the Selling Shareholder or the Underwriters have authorised or do authorise the making of any offer of Shares or GDSs through any financial intermediary, other than offers made by Underwriters which constitute the final placement of Shares and GDSs contemplated herein.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) 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.

NOTICE TO CANADIAN INVESTORS

The Shares and GDSs have not been nor will be qualified by prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of the Shares and GDSs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to “Plan of Distribution — Canada” and Ontario purchasers in particular should refer to the subsection entitled “Statutory rights of action (Ontario purchasers)”.

STABILIZATION

In connection with the offering, UBS Limited or any person acting on their behalf may over-allot GDSs or effect transactions with a view to supporting the market price of the GDSs at a level higher than that which might otherwise prevail. However, there is no assurance that UBS Limited or any person acting on their behalf will undertake stabilization action. Any such stabilization may begin on the date on which adequate public disclosure of the final price of the GDSs is made and, if commenced, may be discontinued at any time, but it must end no later than 30 calendar days after the announcement of the offer price.

CURRENCIES AND EXCHANGE RATES

In this prospectus, references to “U.S. dollars” or “\$” are to the currency of the United States, references to “rubles” or “RUR” are to the currency of the Russian Federation and references to “euro” or “€” are to the currency of the member states of the European Union participating in the European Monetary Union.

Prior to January 1, 2003, the Russian economy was considered hyperinflationary. In accordance with SFAS No. 52, our functional currency was the same as our reporting currency. The Russian economy ceased to be considered hyperinflationary as at January 1, 2003, resulting in a change in our functional currency to the Russian ruble. Accordingly, for the periods subsequent to January 1, 2003, the functional currency amounts (the ruble) are translated into the reporting currency (U.S. dollar) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of Russia. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

For each year from January 1, 2000 to December 31, 2004 and for the nine months ended September 30, 2005	Rubles per U.S. dollar			
	High	Low	Average ⁽¹⁾	Period end
2000	28.87	26.90	28.12	28.16
2001	30.30	28.16	29.17	30.14
2002	31.86	30.14	31.35	31.78
2003	31.89	29.25	30.69	29.45
2004	29.45	27.75	28.82	27.75
Nine months ended September 30, 2005	28.84	27.46	28.15	28.50

- (1) The weighted average of the exchange rates on each day of each full month during the relevant period. The weighted average for the nine months ended September 30, 2005 is based on our calculation of the average of the rates quoted by the CBR in that period.

For each month from July 2005 to December 2005	Rubles per U.S. dollar	
	High	Low
July 2005	28.84	28.57
August 2005	28.60	28.31
September 2005	28.57	28.20
October 2005	28.67	28.42
November 2005	28.88	28.50
December 2005 (up to December 8)	29.00	28.78

The exchange rate between the ruble and the U.S. dollar on December 8, 2005 was 28.93 rubles per \$1.00.

No representation is made that the ruble or U.S. dollar amounts in this prospectus could have been converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all. The ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the ruble.

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

All but one of our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom. All or a substantial portion of their and our assets are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, it may not be possible for you to:

- effect service of process within the United States or the United Kingdom upon any of our directors and executive officers named in this prospectus; or
- enforce, in the United States or the United Kingdom, court judgments obtained in courts of the United States or the United Kingdom, as the case may be, against us or any of our directors and executive officers named in this prospectus in any action, including actions under the civil liability provisions of federal securities laws of the United States.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognized by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. No such treaty exists between the United States or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

The Deposit Agreements for the GDSs provide for actions brought against us by any party to the Deposit Agreements to be settled by arbitration in London, England, 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. However, 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 favor of foreign investors; and
- corruption and Russian courts' inability to enforce such orders.

For a further description of the risks relating to your ability to enforce court judgments against us or any of our directors and executive officers, see "Risk Factors — Risks Relating to the Shares, the GDSs and the Trading Market — You may have limited recourse against us and our directors and executive officers because we generally conduct our operations outside the United States and the United Kingdom and all but one of our current directors and executive officers reside outside the United States and the United Kingdom".

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business”. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and the political and legal environment in which we operate and other information that is not historical information.

Words such as “believe,” “anticipate,” “estimate,” “expect,” “intend,” “predict,” “project,” “could,” “may,” “will,” “plan” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “Risk Factors,” as well as those included elsewhere in this prospectus. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- changes in political, social, legal or economic conditions in Russia;
- 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 our steel products and the raw materials which we require;
- tariffs and other restrictions on the import or export of steel or raw materials;
- the costs of energy and transportation;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to successfully implement any of our business strategies;
- our ability to integrate our businesses, including recently acquired businesses, and to realize anticipated cost savings and operational benefits from such integration;
- an increase or decrease in demand for our products and services;
- our ability to obtain the licenses necessary for our businesses;
- the effects of competition;
- the effects of international political events;
- inflation, interest rate and exchange rate fluctuations; and
- our success in identifying other risks to our businesses and managing the risks of the aforementioned factors.

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 we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise other than as required by applicable laws or the listing rules of the U.K. Listing Authority or the Prospectus Rules. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

AVAILABLE INFORMATION

For so long as any Rule 144A GDSs (or the Shares represented thereby) are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, NLMK will, during any period in which it is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDSs or to any prospective purchaser of such restricted Rule 144A GDSs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

TABLE OF CONTENTS

	<u>Page</u>
Important Information About This Prospectus	i
Notice to U.K. and EEA Investors	ii
Notice to New Hampshire Residents	ii
Notice to Canadian Investors	iii
Stabilization	iii
Currencies and Exchange Rates	iii
Limitation on Enforcement of Civil Liabilities	iv
Forward-Looking Statements	v
Available Information	vi
Prospectus Summary	1
Risk Factors	7
The Offering	33
Use of Proceeds	37
Dividend Policy	38
Market Information	39
Capitalization	40
Selected Consolidated Historical Financial Data	41
Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Steel Industry	76
Business	81
Management and Corporate Governance	104
Transactions with Related Parties	111
Principal and Selling Shareholders	113
Regulatory Matters	115
Description of Share Capital and Certain Requirements of Russian Legislation	128
Description of the Global Depositary Shares	139
Taxation	157
Plan of Distribution	167
Settlement and Delivery	173
Information Relating to the Depositary	176
Legal Matters	176
Independent Auditors	176
Listing and General Information	177
Glossary	G-1
Index to Consolidated Financial Statements	F-1

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PROSPECTUS SUMMARY

This summary highlights certain aspects of our business and the offering. You should read the entire prospectus, including the consolidated financial statements and related notes, before making any decision to invest in the Shares or the GDSs.

For investors in GDSs: This summary must be read as an introduction to this prospectus and any decision to invest in the GDSs should be based on a consideration of the prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area, no civil liability will attach to us in any such member state solely on the basis of this summary, including any translation thereof, unless it 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 European Economic Area, the plaintiff may, under the national legislation 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.

In this prospectus, unless the context otherwise requires, the terms “we,” “us,” “our” and other similar terms refer to the consolidated business of NLMK and its subsidiaries. You should carefully consider the information set forth under the headings “Risk Factors” and “Forward-Looking Statements”.

Our Business

We are one of the world’s leading steel producers and one of the four largest steel producers in Russia. We produced 9.1 million tonnes of crude steel in 2004 (6.2 million tonnes in the first nine months of 2005). In 2004, we generated 64% of our sales revenue from export markets (58% in the first nine months of 2005). We believe that our production facilities are among the most technologically advanced in Russia, producing flat products in a variety of grades and sizes.

We have a diversified portfolio of products, with a strong presence in many industry sectors in both our export and domestic markets. Our product range includes pig iron, slabs, hot- and cold-rolled steel and a variety of value-added products, such as cold-rolled steel sheet, electrical steel, coated sheet and other specialty flat products. In the nine months ended September 30, 2005, we produced 13% of the overall Russian crude steel output, 21% of the overall Russian flat products output and 45% of the overall Russian pre-painted rolled coil steel output. In the nine months ended September 30, 2005, we were the largest producer of cold-rolled steel in Russia with a 32% share of total production, and one of the largest producers of electrical steel in Europe.

Our products are exported, either directly or through three wholesale traders, to over 60 countries in South-East Asia, Europe, the Middle East and North America. The wholesale traders, which are under common ownership, are unrelated parties to NLMK. Our exported products primarily consist of slabs (49% in 2004), hot-rolled steel (16%) and cold-rolled steel (14%). In 2004, our share of the global slabs market was approximately 14%. Domestically, our most important markets are the metallurgy and metal works industry, the automotive sector (we are the main supplier to Avtovaz, the largest auto manufacturer in Russia) and the construction industry.

We seek to control our costs throughout our production cycle and believe we enjoy one of the most competitive production cost structures in the global steel industry. We are an increasingly vertically integrated steel producer, with control over many of our raw material supplies. In 2004, we acquired OJSC Stoilensky GOK, the third largest iron ore producer in Russia, which produced approximately 11 million tonnes of iron ore concentrate in 2004 (8 million tonnes in the first nine months of 2005) and has deposits under license (expiring in 2016) having up to 60 years of reserves life. Together with OJSC Kombinat KMA Ruda, or KMA Ruda, another iron ore producer in which we hold a stake, Stoilensky GOK supplies substantially all of our iron ore concentrate requirements. Stoilensky GOK and KMA Ruda are both located in the Kursk Magnetic Anomaly, the world’s largest iron ore deposit, which is approximately 350 kilometers from our production facilities. In addition, in 2005, we acquired a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. Based on our current estimates, we expect this deposit to be operational in 2008 and to provide approximately 50% of our coking coal requirements from 2009. We also internally supply other raw material and energy requirements, including, in the nine months ended September 30, 2005, producing 35% of our steel segment’s electricity needs.

Our production facilities are concentrated in the City of Lipetsk, located in the center of the European part of Russia and close to transportation routes. In 2004, we acquired a controlling interest in the principal operator of the Black Sea port of Tuapse, Russia's fifth largest seaport. Our relative proximity to the Baltic and Black Sea ports and our main customers in Russia, most of which are located within 1,500 kilometers of Lipetsk, helps to reduce the costs of transporting our products.

In 2000, we embarked on a significant technical upgrading program, which was designed to upgrade our production equipment and implement advanced technologies in order to increase production levels, improve the quality and range of our products, reduce production costs and lessen the environmental impact of our operations. From 2000 to 2002, we made capital expenditures of \$468 million, of which we estimate \$368 million was for the technical upgrading program; from 2003 to 2004, we made capital expenditures of \$509 million, of which we estimate \$461 million was for the technical upgrading program; during the first nine months of 2005, we made capital expenditures of \$421 million, of which we estimate \$367 million was for the technical upgrading program; and we expect to make an additional \$109 million in capital expenditures in the final quarter of 2005, of which we estimate \$71 million will be for the technical upgrading program. In 2006, we will commence the second phase of this program, focusing on achieving continued improvements in the efficiency, capacity and quality of our operations, as well as further significant expansion of our mining operations to further increase the level of vertical integration. We currently estimate that the total cost of the second phase of the program will be approximately \$2,700 million, which we currently plan to allocate among our steel production operations (\$1,640 million), Stoilensky GOK (\$570 million), the Zhernovskoe-1 coal deposit (\$430 million) and OJSC TMTP (\$60 million). As a result of our investment in our production facilities, our productivity, measured in terms of output of steel per employee of our steel operations, increased by 43% from 2001 to 2004. We are recognized by leading certification agencies and our customers for the high quality of our products and production facilities.

We believe that our proximity to transportation links, our control over an increasing portion of our raw material and energy supplies and our production costs, our program of modernizing our production facilities and our diverse product mix has enabled us to achieve one of the highest profitability margins in the global steel industry as measured by EBITDA margin and net income margin. In 2004, we had sales revenue of \$4,538.7 million, EBITDA of \$2,562.8 million and EBITDA margin of 56.5% and, in the nine months ended September 30, 2005, we had sales revenue of \$3,387.7 million, EBITDA of \$1,627.2 million and EBITDA margin of 48.0%.

Strategy

Our mission is to be the preferred provider of flat steel products to our core customer base and to be the most profitable steel producer in the world. To achieve our mission, we plan to pursue the following strategies:

- Maintain our competitive advantage in low cost production and industry profitability by continuing to enhance the modernization and efficiency of our production facilities, pursuing self-sufficiency through vertical integration and increasing profitability through stringent cost management;
- Strengthen our market leadership in flat steel products in our core markets;
- Continue the development of our high value-added product portfolio; and
- Pursue strategic acquisition opportunities with respect to both our steel business and our underlying raw material needs.

See "Business — Strategy".

Competitive Strengths

We believe that our principal competitive strengths are the following:

- Leading Russian steel producer with a strong export position;
- World class assets with a competitive cost production structure;
- Substantial vertical integration with access to raw materials and transport infrastructure;
- Among the world's most profitable and cash generative steel companies;
- Diversified portfolio by product and geography;
- Strong balance sheet and cash flow generation providing financial flexibility;

- Strong platform for growth;
- Experienced management team with proven track record; and
- Commitment to environmental standards.

See “Business — Competitive Strengths”.

Summary Consolidated Historical Financial Information

The table below shows, in summary form, our historical financial information as of and for the years ended December 31, 2002, 2003 and 2004, as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005. The consolidated statement of income and balance sheet data as of and for the years ended December 31, 2002, 2003 and 2004 has been derived from our annual consolidated financial statements included on pages F-2 to F-42 of this prospectus. Our annual consolidated financial statements as of and for the years ended December 31, 2002 and 2001 are also included in this prospectus (on pages F-43 to F-65) in accordance with the requirements of the Prospectus Directive. Our consolidated financial statements as of and for the years ended December 31, 2004, 2003 and 2002 contain certain reclassifications and additional disclosures relating to the financial information as of and for the year ended December 31, 2002 made after initial issuance of our financial statements for the year ended December 31, 2002 and the related audit report. A description of these reclassifications and additional disclosures made to the financial statements for the year ended December 31, 2002 is set forth in Note 27 to our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 included in this prospectus. This information as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005 has been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. In the opinion of our management, this interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period. Our consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States, or U.S. GAAP, since January 1, 1998. This summary financial data should be read in conjunction with our consolidated financial statements included elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(Amounts in thousands of U.S. dollars)				
Sales revenue	1,711,657	2,468,022	4,538,686	3,215,222	3,387,729
Production cost	(950,058)	(1,293,330)	(1,888,702)	(1,360,036)	(1,548,077)
Depreciation and amortization	(146,327)	(157,809)	(243,656)	(173,824)	(210,556)
Cost of sales	(1,096,385)	(1,451,139)	(2,132,358)	(1,533,860)	(1,758,633)
Gross profit	615,272	1,016,883	2,406,328	1,681,362	1,629,096
Operating income	511,913	882,274	2,222,864	1,564,953	1,432,561
Income before income tax and minority interest	466,874	881,734	2,364,002	1,716,326	1,459,623
Income tax	(129,699)	(223,035)	(572,221)	(405,665)	(394,783)
Income before minority interest	337,175	658,699	1,791,781	1,310,661	1,064,840
Equity in net earning of associates	—	—	—	—	3,601
Minority interest	1,243	(2,243)	(19,280)	(16,053)	(22,653)
Net income	338,418	656,456	1,772,501	1,294,608	1,045,788
	As of December 31,			As of September 30,	
	2002	2003	2004	2005	
				(Unaudited)	
	(Amounts in thousands of U.S. dollars)				
Cash and cash equivalents	382,957	729,641	1,348,615	1,932,743	
Total assets	2,198,986	3,085,265	5,165,921	5,966,642	
Total debt (long-term and short-term)	6,334	4,541	9,108	19,863	
Total liabilities	194,917	458,705	859,643	1,087,243	
Total stockholders' equity	1,991,178	2,609,908	4,220,491	4,792,982	

As at September 30, 2005, our total debt was \$19.9 million.

Summary production and sales information

The table below shows the production volume of our principal steel products for the periods indicated.

Product	Year ended December 31,		Change		Nine months ended September 30,		Change	
	2003	2004			2004	2005		
	amount	amount	amount	(%)	amount	amount	amount	(%)
(in millions of tonnes, except for percentages)								
Pig Iron	8.6	9.0	0.4	4.7	6.7	5.7	(1.0)	(14.9)
Pig iron for sale	0.9	1.1	0.2	22.2	0.7	0.3	(0.4)	(57.1)
Finished steel products	8.0	8.5	0.5	6.3	6.4	5.7	(0.7)	(10.9)
Slabs	3.3	3.8	0.5	15.2	2.7	2.2	(0.5)	(18.5)
Rolled steel products	4.7	4.7	—	—	3.7	3.5	(0.2)	(5.4)
Hot-rolled steel	2.0	2.1	0.1	5.0	1.6	1.6	—	—
Cold-rolled steel	2.7	2.6	(0.1)	(3.7)	2.1	1.9	(0.2)	(9.5)
Coated steel	0.5	0.5	—	—	0.4	0.4	—	—
Hot dip galvanized steel	0.3	0.3	—	—	0.2	0.2	—	—
Pre-painted steel	0.2	0.2	—	—	0.2	0.2	—	—
Electrical steel	0.4	0.5	0.1	25.0	0.4	0.3	(0.1)	(25.0)
Grain oriented	0.1	0.1	—	—	0.1	0.1	—	—
Non-grain oriented	0.3	0.4	0.1	33.3	0.3	0.2	(0.1)	(33.3)

We currently expect that our total crude steel production in 2005 will be 8.5 million tonnes, of which 8.0 million tonnes will be finished steel, comprising 4.8 million tonnes of rolled steel products and 3.2 million tonnes of slabs.

The table below shows the sales attributable to our steel products for the periods indicated.

	Year ended December 31,									Nine months ended September 30, 2005		
	2002			2003			2004					
	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues
Pig iron	0.70	59.3	3.5	0.93	115.7	4.7	1.06	267.0	6.1	0.25	64.3	2.0
Slabs	3.24	447.0	26.4	3.34	593.7	24.2	3.76	1,442.0	32.8	2.21	804.8	25.5
Hot-rolled steel	2.12	365.3	21.6	2.01	507.1	20.7	2.06	928.5	21.1	1.60	765.3	24.2
Cold-rolled steel	1.79	408.1	24.1	1.84	621.7	25.4	1.63	851.8	19.4	1.21	691.8	21.9
Hot dip galvanized steel	0.34	119.6	7.1	0.31	149.7	6.1	0.26	171.3	3.9	0.17	134.8	4.3
Pre-painted steel	0.19	102.6	6.1	0.19	134.8	5.5	0.24	195.5	4.4	0.17	165.2	5.2
Grain oriented steel	0.10	71.6	4.2	0.11	85.1	3.5	0.12	118.5	2.7	0.09	200.5	6.4
Non-grain oriented steel	0.16	46.5	2.7	0.28	109.1	4.5	0.39	217.0	4.9	0.24	174.9	5.5
Other operations ⁽¹⁾	N/A	72.6	4.3	N/A	133.3	5.4	N/A	208.0	4.7	N/A	158.5	5.0
Total	N/A	1,692.6	100.0	N/A	2,450.2	100.0	N/A	4,399.6	100.0	N/A	3,160.1	100.0

(1) Comprises sales revenue derived primarily from the sale of by-products, services and other steel products.

Risk Factors

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

- The cyclical nature of the demand and prices for our steel products;
- The highly competitive nature of the steel industry;
- The supplies and costs of the raw materials and energy that we require;
- The imposition of trade barriers or duties on our steel products;
- Foreign currency exchange rate fluctuations and Russian currency control laws;
- The acquisition and maintenance of our principal licenses;
- Our lack of insurance coverage of the type that is customary in more economically developed countries;

- Potential economic or political instability in Russia;
- Weaknesses in the Russian legal system;
- The uncertain scope and application of Russian tax laws and regulations;
- Our controlling shareholder's ability to exert significant influence over us;
- The limited protection afforded to minority shareholders under Russian law;
- The ability of holders of GDSs to exercise the rights attached to the underlying Shares;
- The ability to deposit shares into the GDS program in order to receive GDSs; and
- The offering may not result in a liquid or active market for the Shares or GDSs and their price may be highly volatile.

Prior to making a decision to invest in the Shares or GDSs, you should carefully consider the information set forth under the heading "Risk Factors".

Regulatory Matters

Our business operations are subject to regulation by the Russian authorities on a number of matters, including licensing, subsoil use, environmental protection, employee health and safety and competition. We are also subject from time to time to various international tariffs and duties on the importation of Russian steel products. See "Regulatory Matters".

Our Management; Corporate Governance

Our management team has substantial experience in the steel industry and has an established track record of successfully managing our company. Our Board of Directors currently consists of nine members, of whom four, including a U.S. citizen, are independent directors in accordance with the criteria set out in the Russian Joint Stock Companies Law and our Corporate Governance Code, which differ in certain respects from the criteria for independent directors that are set out in the U.K. Combined Code. We refer to those directors as independent directors and we intend to maintain at least three such independent directors on our Board following the offering.

On December 3, 2004, we adopted a new Corporate Governance Code. In formulating this code, we were guided both by applicable Russian laws and regulations and the principles recommended in the OECD Principles of Corporate Governance. Our Corporate Governance Code sets out principles and standards for our relations with our shareholders, the composition and proceedings of our Board of Directors, the role of our executive officers, disclosure of information and the auditing of our financial performance. Key provisions of our Corporate Governance Code include the principle of equal treatment of all our shareholders, a commitment to maintain at least three independent directors and the establishment of three board committees.

Our Corporate Governance Code also includes a commitment to transparency. In addition to our obligations under the disclosure standards established by Russian legislation and the requirements of the Federal Service for Financial Markets, we aim to ensure timely and precise public disclosure of data on all significant issues, including our operating results, financial position, ownership and corporate governance.

We believe that our Corporate Governance Code will help to ensure that we are managed and monitored in a responsible and value-driven manner and that the rights of our shareholders and investors are protected. See "Management and Corporate Governance".

Share Capital and Dividends

Our current share capital consists of 5,993,227,240 common shares, all of which are fully paid, issued and outstanding, with a nominal value of 1 ruble each. Our common shares were issued in accordance with the laws of the Russian Federation and have the rights described under "Description of Share Capital and Certain Requirements of Russian Legislation".

Our dividend policy, which was approved by our shareholders on June 25, 2004, targets dividend payments of 25% of our annual net income and provides for a minimum annual dividend payment of at least 15% of our

annual net income, as determined in accordance with U.S. GAAP. We declared dividends of \$338.9 million during the year ended December 31, 2004 and \$382.3 million for the first nine months of 2005. See “Dividend Policy”.

Summary of the Offering

Veft Enterprises Limited, a company incorporated under the laws of Cyprus which we refer to as the Selling Shareholder, intends to offer 420,000,000 Shares, in the form of Shares and GDSs, with each GDS representing 10 Shares. The offer price for the Shares is \$1.45 and for the GDSs is \$14.50 and the closing date is expected to be on or about December 14, 2005. The Selling Shareholder is beneficially owned by Mr. Vladimir Lisin, our controlling shareholder and the Chairman of our Board of Directors.

We will not receive any of the proceeds from the sale of the Shares and GDSs. Following the offering, our controlling shareholder will beneficially own 82.84% of our outstanding shares, or 81.79% of our outstanding shares if the Underwriters exercise their over-allotment option in full.

RISK FACTORS

An investment in the Shares and GDSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this prospectus, before you decide to buy the Shares or GDSs. If any of the following risks actually occurs, our business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of the Shares and GDSs could also decline and you could lose all or part of your investment.

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the Shares and GDSs.

Risks Relating to Our Business and Industry

We operate in a cyclical industry, and any local or global downturn in the steel industry may have an adverse effect on our results of operations and financial condition.

The steel industry is cyclical in nature because the industries in which steel customers operate are cyclical and sensitive to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which steel producers sell products, as well as in the global economy. The prices of steel products are influenced by many factors, including global and regional steel consumption, worldwide production capacity, capacity utilization rates, raw material costs, exchange rates, trade barriers and improvements in steel-making processes. For example, steel prices have recently been driven to a significant extent by demand for imported steel in China and reached their highest levels in nearly 20 years during 2004. At the same time, global steel production volumes reached their highest levels in the past fifty years. Following a decline in Chinese demand for imported steel, steel prices fell significantly in the second and third quarters of 2005, and steel producers, including ourselves, responded by reducing capacity. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control. In addition, we derive a significant portion of our export revenues from the sale of slabs, the price of which is generally volatile. For example, our averaged realized prices for slabs in the third quarter of 2005 were \$249 per tonne, compared to \$423 per tonne in the first six months of 2005. Prolonged declines in world market steel prices would have a material adverse effect on our revenues.

We derived 42% and 36% of our total revenues from sales to customers in Russia in 2003 and in 2004, respectively, and 42% in the nine months ended September 30, 2005. The Russian economy has been unstable over the past 10 years. From 1995 to 1998, the Russian economy contracted in real terms at an average rate of 2.7% per year. After the Russian crisis in 1998, the economy recovered and grew in real terms at an average rate of 6.4% per year from 2000 to 2004 and has continued to grow at 5.7% per year in the first nine months of 2005. Russian production of steel also suffered a substantial decline from over 77 million tonnes in 1991 to 44 million tonnes in 1998, but then recovered to 64 million tonnes in 2004 and 48.4 million tonnes in the first nine months of 2005. Further, a significant portion of our products in Russia are used in the automotive, construction and engineering industries, which are particularly vulnerable to general economic downturns. A downturn in the Russian economy, or in a particular sector of it, could result in a significantly reduced demand for our products, which would have a material adverse effect on our business and the results of our operations.

The steel industry is highly competitive, and we may not be able to compete successfully.

The Russian and international markets for steel and steel products are highly competitive. We compete primarily on the basis of price, quality, technical innovation and the ability to meet customers' product specifications and delivery schedules. Our competitors include foreign steel producers, many of which are larger, have greater capital resources, have more technologically advanced steel production facilities and, in some cases, have lower raw material costs than us. We face price-based competition from steel producers in emerging market countries, including, in particular, Ukraine. Domestic competitors may have competitive advantages in terms of access to key suppliers. Our key competitors in the domestic markets for flat products are OJSC Magnitogorsk Iron & Steel Works, or MMK, and OJSC Severstal, or Severstal. With respect to steel products sold to Europe, our principal competitors are major European steel companies, major Russian steel companies and other international steel companies. With respect to steel sold to China, our principal competitors are Chinese, other Asian, CIS and European steel companies. China has now become an exporter of certain steel products.

Our competitive position may be affected by the recent trend towards consolidation in the steel industry. While there are still a significant number of small companies operating in the steel sector worldwide, the 1990s

were marked by an active consolidation process within the steel industry, through mergers and acquisitions involving, among others, the Mittal Steel Group, Arcelor, ThyssenKrupp Stahl and JFE. These and many other large international steel companies have greater financial resources and more extensive global operations than us. Major international steel producers have begun to seek to expand their operations into emerging markets as shown by the October 2005 acquisition by Mittal Steel of Kryvorizhstal, the second largest steel producer in Ukraine. The Russian steel industry has also experienced increased conglomeration and consolidation, including the formation of the EvrazHolding Group.

Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries.

The highly competitive nature of the steel industry combined with excess production capacity for some steel products has resulted, and may in the future continue to result, in downward pressure on prices of some of our products. There can be no assurance that we will be able to compete successfully in the future. The intensity of competition, combined with the cyclicity of steel markets, results in significant variations in economic performance, which may lead to a decrease in our expected profits and even to losses.

Russian competition law may restrict our ability to determine the prices of our products.

As a major Russian steel and metalware producer, we appear on the register maintained for companies with a 35% share in a particular goods market in Russia. For some of the products that we sell, our market share in Russia exceeds 65%, which means that we are deemed to have a dominant position in those markets. Under the current Russian competition law, companies entered on the register and having a dominant position are subject to restrictions on their ability to set prices for their products, which may adversely affect our results of operations. See “Regulatory Matters — Regulation of Competition”.

The Russian Federal Anti-Monopoly Service is currently investigating allegations of price fixing by the major Russian iron ore producers, including our subsidiary, Stoilensky GOK. If the Federal Anti-Monopoly Service concludes, as a result of these investigations, that there has been a degree of collusion in determining prices among iron ore producers, we may in the future be subject to penalties and/or restrictions on our ability to set prices for the iron ore that we sell, which may adversely affect the revenues that we derive from our mining operations.

In July 2005, the Russian parliament gave preliminary approval to a new competition law, which may, if enacted, significantly increase the regulatory powers of the competition authorities in Russia. In the event that a new competition law significantly increases the regulatory powers of the competition authorities in Russia, we may be subject to additional restrictions on our ability to set prices for some of our products, which could have a material adverse effect on our results of operations.

We are dependent on suppliers for some of the raw materials we use. A disruption in supply could have a material adverse effect on our results of operations.

We require substantial amounts of raw materials in the steel production process, in particular iron ore and coal. While our subsidiaries and affiliates supply substantially all of our iron ore concentrate requirements, we currently rely on third party suppliers to provide all our coal requirements. Our principal suppliers of coal are located at coal basins in Siberia, which are a great distance from our steel production units in Lipetsk, and, therefore, we are subject to the risk that the transportation of these supplies may be disrupted. See “— Increased transportation costs or a disruption in transportation could significantly affect our business and financial results”. In August 2005, we acquired at auction a license for the exploration and development of the Zhernovskoe-1 coal deposit in Siberia. We do not currently expect, however, that commercial mining at this deposit will begin before 2008. While we may consider the acquisition of additional reserves of coal, we cannot assure you that such additional reserves will be acquired or that the terms relating to any such acquisition will be acceptable. In addition, our operations require substantial amounts of other raw materials, including limestone and dolomite (which are sourced internally), non-ferrous metal and ferro-alloys and scrap metal (which is partially sourced internally) and iron ore pellets (which are sourced externally). The availability of the raw materials that we require may be negatively affected by a number of other factors largely beyond our control, including interruptions in production by suppliers, decisions by suppliers to allocate supply of raw materials to other purchasers, price fluctuations and increasing transportation costs. The price and availability of raw materials sourced from third parties are also subject to market conditions. We have contracts, which typically are of one year’s duration and which generally may be terminated on up to 60 days’ notice, with many of our suppliers. Should our relationships with any of our suppliers change or these contracts terminate without renewal or replacement, our ability to operate our business may be materially affected.

We are dependent on government-controlled companies for a substantial portion of our energy needs. Increased energy costs or an interruption in our electricity or natural gas supply could materially adversely affect our business and results of operations.

Energy costs, particularly the costs of electricity and gas, comprise a significant portion of our cost of production.

In 2004, we purchased approximately 3.5 billion kWh of electricity, representing 63% of our needs, from local subsidiaries of RAO UES, the government-controlled national holding company for the Russian power sector. In the first nine months of 2005, we purchased approximately 2.6 billion kWh of electricity from subsidiaries of RAO UES, representing 65% of our steel segment's needs. The remainder was supplied by electricity generating facilities owned by us. Domestic electricity prices are regulated by the Russian government. The government is currently implementing a restructuring plan for the power sector aimed at introducing competition, liberalizing the wholesale electricity market and moving from regulated pricing to a market-based system by 2007. In addition, while subject to doubt as to whether it will be implemented as currently written, according to the Russian Energy Strategy approved by the Russian government in 2003, electricity tariffs for industrial users are expected to reach 3.2-3.6 cents per kWh by 2006. In 2004, our average cost of purchased electricity was 3.0 cents per kWh, increasing to 3.3 cents per kWh in the first nine months of 2005. Assuming a price of 3.6 cents per kWh in 2004, we would have incurred approximately \$24.5 million in additional costs. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector. If we are required to pay higher prices for electricity in the future, our costs will rise and our business and prospects could be materially adversely affected.

In 2004 and in the first nine months of 2005, we purchased 1.7 billion cubic meters and 1.3 billion cubic meters, respectively, of natural gas from OJSC Gazprom, or Gazprom. 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. Domestic natural gas prices are regulated by the government. These prices have been rising over the last few years. Although natural gas prices have recently risen, they are still significantly below Western European levels, which helps to provide us with a cost advantage over our competitors. Recently, in connection with Russia's potential accession to the World Trade Organization, or WTO, Russia and the European Union agreed that Russia would raise domestic gas prices to \$37-42 per thousand cubic meters (\$1.05-1.19 per thousand cubic feet) by 2006 and to \$49-57 per thousand cubic meters (\$1.39-\$1.61 per thousand cubic feet) by 2010. Gazprom has proposed to set its domestic prices for industrial consumers of its natural gas at market rates beginning in 2006 and to require steel companies to purchase a portion of their gas requirements at prices above the regulated price. In 2004, our average cost for natural gas was \$32 per thousand cubic meters (\$0.91 per thousand cubic feet), and our average cost of natural gas increased to \$46 per thousand cubic meters (\$1.3 per thousand cubic feet) in the first nine months of 2005. If the price we pay for natural gas continues to increase, our costs will rise and our profitability could be materially adversely affected. We may also be affected if Gazprom further diverts its sales to foreign markets, resulting in an insufficient supply of natural gas in the Lipetsk region or in Russia.

An interruption in our electricity or natural gas supplies would have a significant effect on our business and results of operations. In the event of a failure in the electricity grid, production of our steel products could continue for only a limited time. Gas supplied by Gazprom is one of the heating fuels, in addition to coke, that we use in our blast furnaces and any interruption in supply could result in a decrease in the production levels of the blast furnaces and require us to consume significantly more coke.

Increased transportation costs or a disruption in transportation could significantly affect our business and financial results.

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to our domestic customers. Although we have begun to acquire and lease railway rolling stock to provide for independent transportation of some of our raw materials and products, we are likely to continue to be dependent for most of our rail transport needs on the state-owned monopoly, OJSC Russian Railroads, or Russian Railroads. In 2003, legislation was enacted which set out the framework for the reorganization of the former Ministry of Railways into Russian Railroads, to be followed by the eventual privatization of some of its functions.

Railway tariffs for freight of our raw materials and products increased, on average, by approximately 16% in 2002, 26% in 2003, 12% in 2004 and 18% in the first nine months of 2005, resulting in significant increases in our transportation costs. Currently, the Russian government sets rail tariffs and may further increase these tariffs,

as it has done in the past. The Russian government has announced that, beginning in 2007, tariff increases will be at or below the annual inflation rate, but we cannot assure you that these limits will not be changed. A further significant increase in rail tariffs, whether implemented by the Russian government or resulting from the reorganization or privatization of Russian Railroads, or other transportation costs could adversely affect our profitability. The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities, a shortage of rail cars, the limited capacity of border stations and load shedding, including those due to poorly maintained rail cars and train collisions. See “Risks Relating to the Russian Federation — Economic Risks — The physical infrastructure in Russia is in very poor condition, which could disrupt normal business activity”.

Equipment failures or production curtailments or shutdowns could adversely affect our sales and profitability.

Interruptions in production capacities will inevitably increase production costs and reduce sales and earnings. In addition to equipment failures, our facilities are also subject to the risk of catastrophic loss due to unanticipated events, such as fires, explosions or adverse weather conditions. Our manufacturing processes depend on critical pieces of steelmaking equipment, such as furnaces, converters, continuous casters and rolling equipment, as well as electrical equipment such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, we may experience material plant shutdowns or periods of reduced production as a result of any equipment failures. Furthermore, any interruption in production capability may require us to make large capital expenditures to remedy the situation, which could have a negative effect on our profitability and cashflows. We do not currently maintain business interruption insurance, and any recoveries under insurance coverage that we may obtain in the future may not offset the lost revenues or increased costs resulting from the disruption of operations. A longer-term business disruption could also result in a loss of customers. If this were to occur, future sales and our profitability could be adversely affected.

In addition, the climate of the region of Russia where our production facilities are located affects our operations during various times of the year. If colder weather starts earlier or ends later in the year, then our operating capacity may be reduced or stockpiles of raw materials may be increased.

We face numerous protective trade restrictions in the export of our steel products.

We face numerous protective tariffs, duties and quotas, which reduce our competitiveness in, and limit our access to, particular markets. Several key steel importing countries currently have import restrictions in place on steel products or intend to introduce them in the future. A significant portion of our sales revenues is derived from sales of steel products that are subject to import restrictions. See “Regulatory Matters — Trade Barriers and Anti-Dumping Regulations”. If countries to which our steel products are currently exported impose further restrictions on our products, our export sales could suffer, which would have a material adverse effect on our revenues and earnings.

The European Union has a quota system in place covering imports of most Russian steel products (excluding pig iron, slabs and electrical steels), and our steel products exported to other European countries that have recently joined the European Union have become subject to the European Union’s quota system, as might our steel products exported to those countries who join the European Union in the future. Sales of our products to end-customers in the European Union constituted 17.3% of our sales revenues in 2004. We used 87% of our European Union steel import quota allocation during 2004. As of September 30, 2005, we had used approximately 57% of our existing European Union allocation for 2005, although the European Union has recently introduced a revised, increased quota allocation for 2005 and 2006. It is expected that the quota system will be withdrawn by the end of 2006 or, if earlier, at the time of Russia’s accession to the WTO. If European Union quotas are not withdrawn, our ability to expand our sales in the European Union could be limited. In addition, we have agreed with the European Union that, in exchange for the suspension of an anti-dumping duty on our exports of grain oriented steel, we will set minimum market-referenced prices for our exports of this product into the European Union. If this agreement is terminated, our revenues from the export of grain oriented steel may be adversely affected.

The United States has a quota and reference price system in place with respect to imports of Russian hot-rolled flat carbon quality steel products. The United States introduced these measures in accordance with a Suspension Agreement on anti-dumping duty measures, and extended them on April 28, 2005 following a five-year sunset review. Imports of Russian cut-to length carbon steel plate were also subject to a quota system, which was replaced in late 2002 by a market economy-based reference price system estimated on the basis of the Russian companies’ actual costs of production. Additional quotas with respect to imports of pig iron, cold-rolled

steel, slabs, galvanized sheets and some other products from Russia expired in July 2004. In December 2003, the United States also withdrew safeguard measures in the form of tariffs on most steel exports to the United States, including those from Russia, after the WTO's Appellate Body had determined them to be inconsistent with the requirements of the WTO. Sales of our steel products to end-customers in North America constituted 14.5% of our sales revenue in 2004, of which the United States accounted for the largest share. If the United States imposes new anti-dumping duties or other types of restrictions, exports of our products to the United States may decrease, which would have a material adverse effect on our revenues and earnings.

In January 2004, China imposed new anti-dumping duties on cold-rolled steel imports from Russia that were retroactive to September 2003 and were to be effective for five years. These duties were suspended indefinitely in September 2004. Sales of our steel products to end-customers in China constituted 4.6% of our sales revenue in 2004. We cannot assure you that China will not introduce similar anti-dumping measures in the future, which would limit our ability to expand our sales in China.

We benefit from Russia's tariffs and duties on imported steel, which may be eliminated in the future.

Russia has in place import tariffs with respect to various steel products imported from outside of Russia, other than specified CIS countries. These tariffs generally amount to 5% of value for most of the products, increasing to 20% of value for certain high value-added steel products. In addition, Russia has imposed restrictions on the import of some steel products from Ukraine. We believe we benefit from these tariffs, duties and restrictions because they increase the cost of imported steel in Russia and prevent subsidized exports to Russia from other countries, including Ukraine, from reducing the prices we can obtain for these products in our domestic markets. These tariffs, duties and restrictions may be reduced or eliminated in the future, which could materially adversely affect our revenues and results of operations.

Recently, Russia and the European Union agreed on terms for Russia's entry into the WTO and, according to press reports, Russia may complete its negotiations with other countries enabling it to join the WTO by 2007. Russia's accession to the WTO could negatively affect our business and prospects. In particular, Russia's entry into the WTO could result in the lowering or removing of tariffs and duties on steel products, causing increased competition in the domestic steel market from foreign producers, which could have a material adverse effect on our revenues and earnings.

We will require a significant amount of cash to fund our capital investments, including our technical upgrading program. If we are unable to generate this cash through our operations or through external sources, this program may not be completed on schedule or at all.

Our business is and will continue to be capital-intensive. In 2000, we commenced a technical upgrading program, in which we planned to expand our capacity and generally modernize our facilities throughout our operations. We estimate that the total cost of our capital expenditures, from 2000 through 2005, will be approximately \$1,499 million, of which we estimate approximately \$1,263 million will be for the first phase of our technical upgrading program, which commenced in 2000 and will end in 2005. From 2000 to 2002, we made capital expenditures of \$468 million, of which we estimate \$368 million was for the technical upgrading program and, from 2003 to 2004, we made capital expenditures of \$509 million, of which we estimate \$461 million was for the technical upgrading program. During the first nine months of 2005, we made capital expenditures of \$421 million, of which we estimate \$367 million was for the technical upgrading program, and expect to make an additional \$109 million in capital expenditures in the final quarter of 2005, of which we estimate \$71 million will be for the technical upgrading program. We are planning to implement phase two of our technical upgrading program from 2006 through 2010, the total cost of which we currently estimate to be approximately \$2,700 million, and we also estimate that we will require approximately \$600 million for expenditure on maintenance during that period. We have not yet finalized our plans for the second phase of our technical upgrading program, however, and thus those estimates are subject to change.

In the past, we have generated substantially all of the cash necessary for these improvements and repairs through our internal operations, and expect to continue to do so in the foreseeable future. If our cash flows are reduced, and we are not able to obtain alternative sources of external financing at an acceptable cost or in the amounts required, our planned capital investments, including our technical upgrading program, may be substantially delayed or interrupted. In addition, our capital investments are subject to a variety of other uncertainties, including changes in economic conditions, delays in completion, cost overruns and defects in design or construction. We cannot assure you that our technical upgrading program will be completed on schedule or that our expected operational improvements will be fully realized as currently

envisioned. We believe that our technological improvements are a key competitive advantage and a significant contributor to our profitability. Any deferral or interruption in our planned capital investments could have a material adverse impact on our sales and results of operations.

More stringent environmental laws and regulations or stricter enforcement of existing environmental laws and regulations in Russia may have a significant negative effect on our operating results.

We are involved in an industry which may be hazardous to the environment and require compliance with stringent regulatory requirements. The operations of steelmaking plants have potential environmental problems including the generation of pollutants and the handling, storage and disposal of wastes and other hazardous materials, such as benzapiren, sulphur oxide, sulphuric acid, sulphates, phenicols and sludges (including sludges containing chrome, copper, nickel and zinc). Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable. Environmental regulations are undergoing modification in the Russian Federation and elsewhere, and we regularly evaluate our obligations relating to new and changing legislation. In the past, new and stricter environmental requirements have been imposed, and fines and other payments have been significantly increased, although environmental legislation in Russia remains generally weaker and less stringently enforced than in the European Union or the United States. New laws and regulations, the imposition of more stringent requirements in licenses, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licenses, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups and reclamation, curtail or cease operations, or pay fees, fines, or make other payments for discharges or other breaches of environmental standards. Although we believe that our operations are currently in compliance in all material respects with applicable regulations, we have been subject to fines and other penalties arising out of our failure to comply fully with environmental regulations in the past, and we cannot assure you that the state or regulatory authorities will not impose additional regulations or increase the levels of fines or penalties for non-compliance, which could require significant expenditure to comply with such regulations.

On November 4, 2004, Russia ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change and, as a result, on February 16, 2005 the Kyoto protocol came into force for all signatory countries. The Kyoto Protocol requires the signatory countries to make substantial reductions in “greenhouse gas” emissions. We are currently evaluating the potential consequences of the ratification by Russia of the Kyoto Protocol. We believe that it is difficult at this time to assess accurately the potential impact of the Kyoto Protocol, as the Russian government has not yet issued any specific information which indicates the base level against which permissible levels of emissions are to be measured, how quotas on greenhouse gas emissions will be distributed and how other requirements arising out of the protocol will be implemented in Russia. Any increased costs associated with the implementation of the Kyoto Protocol may materially affect our earnings and competitiveness.

In addition, we have generally not been indemnified against environmental liabilities or any required land reclamation expense of our acquired businesses that arise from activities that occurred prior to the acquisition of these businesses, and accordingly we may be responsible for the entire amount of such liabilities and expenses if they arise.

We have engaged and may continue to engage in transactions with related and other parties that may present conflicts of interest.

We have engaged in transactions with related parties, including our controlling shareholder and companies controlled by him or in which he owns an interest and other affiliates, and may continue to do so in the future. We have engaged in transactions with certain of our shareholders, directors and executive officers and companies controlled by them or in which they or we own an interest, including equity purchases and sales, purchase and sale contracts, loan arrangements and real property acquisitions. See “Transactions with Related Parties”. Conflicts of interest may arise between our affiliates and ourselves, potentially resulting in the conclusion of transactions on terms not determined by market forces.

We may have difficulty integrating the businesses we acquire and gaining the benefits from our acquisitions or identifying suitable acquisition targets.

Our two significant acquisitions of businesses in 2004 were the acquisition of a controlling interest in Stoilensky GOK and in OJSC TMTP. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Acquisitions and Disposals”. We continue to consider acquisitions which will help us to meet our production requirements or enhance our future growth. The acquisition and integration of new companies and businesses, including Stoilensky GOK, pose significant risks to our existing operations, such as

the difficulty of integrating the operations and personnel of the acquired business, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of our own business, the assumption of liabilities, including in relation to tax and environmental matters, relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of those assets may be unenforceable or insufficient to cover potential tax or other liabilities, the difficulty of implementing effective management, financial and accounting systems and controls over the acquired business, the imposition and maintenance of common standards, controls, procedures and policies, and the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration. Furthermore, the value of any business we acquire or invest in may be less than the amount that we pay for it if, for example, there is a decline in the position of that business in the relevant market in which it operates or there is a decline in the market generally.

Moreover, we may not be able to identify suitable acquisition targets, and future acquisitions may not be available on terms as favorable as in the past. We face significant competition for potential acquisitions, both for mining assets and, as the recent auctions of the Turkish steel producer Erdemir and the Ukrainian steel producer Kryvorizhstal demonstrate, steel producing assets. When making acquisitions, it may not be possible for us to conduct a detailed investigation of the nature of the assets being acquired, due to time constraints in making the decision and other factors. We may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition.

Estimates of reserves are subject to uncertainties.

The estimates contained in this prospectus concerning the reserves of iron ore deposits and other raw materials that our mining segment has a license to mine 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. Actual production results may differ significantly from reserves 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 material.

In addition, some of these ore deposits have not yet been evaluated in accordance with international methodologies. Information relating to iron ore deposits in this prospectus has been prepared on the basis of Russian reserves methodologies, which differ significantly from international methodologies and the standards applied by the United States Securities and Exchange Commission, among others. See “Business — Raw Materials and Energy — Mineral reserves of Stoilensky GOK”.

Our ability to develop these reserves is subject to our ability to maintain and renew the licenses to those reserves. See “— Our business could be adversely affected if we fail to obtain, maintain or renew necessary licenses, including subsoil licenses, and permits or fail to comply with the terms of our licenses and permits”.

We are subject to mining risks.

Our mining operations, 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.

In particular, hazards associated with our open-pit mining operations include flooding of the open pit, collapses of the open-pit wall, accidents associated with the operation of large open-pit mining and ore handling equipment, accidents associated with the preparation and ignition of large-scale open-pit blasting operations, production disruptions due to weather and hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination.

Hazards associated with our underground mining operations include underground fires and explosions, including those caused by flammable gas, cave-ins or ground falls, discharges of gases and toxic chemicals, flooding, sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine.

We are at risk of experiencing any and all of these hazards. The occurrence of any of these hazards could delay production, increase production costs and result in injury to persons and damage to property, as well as liability for us. The liabilities resulting from any of these risks may not be adequately covered by insurance, and we cannot assure you that we will be able to obtain additional insurance coverage at rates we consider to be reasonable. We may therefore incur significant costs that could have a material adverse effect on our business, results of operations and financial condition.

Inflation, or appreciation in real terms of the ruble against the U.S. dollar or the euro, may materially adversely affect our results of operations.

Our production activities are located in Russia, and the majority of our direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year. Notwithstanding recent reductions in the inflation rate, which in 2003 was 12.0%, in 2004 was 11.7% and in the nine months ended September 30, 2005 was 8.6%, we tend to experience inflation-driven increases in some of our costs, such as salaries, that are linked to the general price level in Russia. However, we may not be able to increase the prices that we receive for our products sufficiently in order to preserve operating margins, particularly, in the case of our export sales, if that inflation is accompanied by real appreciation of the ruble against the U.S. dollar or the euro. Accordingly, high rates of inflation in Russia could increase our costs and decrease our operating margins.

Our reporting currency is the U.S. dollar. Our products are typically priced in rubles for domestic sales and in U.S. dollars, and, to a lesser although increasing extent, euros, for export sales, whereas the majority of our direct costs are incurred in rubles. Appreciation in real terms of the ruble against the U.S. dollar or the euro results in an increase in our costs relative to our revenues, adversely affecting our results of operations. In 2004, for example, the rate of real appreciation of the ruble against the U.S. dollar was 15.1% (12.3% in the first nine months of 2005), according to the Central Bank of the Russian Federation, or the CBR. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products sufficiently to preserve our expected operating margins, and real appreciation of the ruble against the U.S. dollar or the euro may materially adversely affect our results of operations.

Russian currency control regulations may hinder our ability to conduct our business.

The CBR has from time to time imposed various currency control regulations in attempts to support the ruble, and may take further actions in the future. Furthermore, the Russian government and the CBR may impose additional requirements on cash inflows and outflows into and out of Russia or on use of foreign currency in Russia.

Notwithstanding recent significant liberalization of the Russian currency control regime, the current Russian currency control laws allow the Russian government and the CBR to regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. Currency control regulations established by the CBR and the Russian government also impose certain currency control restrictions on investments by Russian companies outside of Russia and in most hard-currency-denominated instruments in Russia, and there are only a limited number of ruble-denominated instruments in which we may invest our excess cash. The ruble is not convertible outside Russia and the CIS, and the ability of companies operating in Russia to convert rubles into other currencies may be subject to a special account and/or mandatory reserve requirements from time to time. Because of the limited development of the foreign currency market in Russia, we may experience difficulty converting rubles into other currencies. The market in Russia for the conversion of rubles into foreign currencies is limited. Additionally, subject to certain exceptions, Russian companies must repatriate 100% of offshore foreign currency earnings to Russia and convert 10% of those earnings into rubles within seven business days of receipt, although Russian legislation allows the CBR to decrease this conversion requirement or increase it up to 30%. We incurred net foreign currency exchange losses of approximately \$18.2 million, \$43.0 million, \$39.1 million and \$19.0 million, respectively, in 2002, 2003, 2004 and the nine months ended September 30, 2005. Any deposits maintained in rubles will decrease in value expressed in U.S. dollars, our reporting currency, if the ruble devalues against the U.S. dollar.

Restrictions on our ability to convert currency or transfer funds could increase the cost for us of, or prevent us from carrying on, necessary business transactions, or from successfully implementing our business strategy, which could have a material adverse effect on our business or results of operations.

Our business could be adversely affected if we fail to obtain, maintain or renew necessary licenses, including subsoil licenses, and permits or fail to comply with the terms of our licenses and permits.

Our mining subsidiaries, including Stoilensky GOK, do not have property rights to the deposits that they mine. Instead, they have licenses to explore and develop those deposits. Therefore, our business depends on the continuing validity of our licenses, including subsoil licenses for our mining operations, and the issuance of new licenses and our compliance with their terms. Our key licenses include the principal mining licence of Stoilensky GOK, which is due to expire on January 1, 2016, and the license to explore and develop the Zhernovskoe-1 coal deposit, which is due to expire in 2025. Regulatory authorities exercise considerable discretion in the timing of

license issuance and renewal and the monitoring of licensees' compliance with license terms. Requirements imposed by these authorities, which require us to comply with numerous industrial standards, recruit qualified personnel, maintain necessary equipment and quality control systems, monitor our operations, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licenses, for example by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. Private individuals and the public at large possess rights to comment on and otherwise engage in the licensing process, including through intervention in courts and political pressure. Accordingly, the licenses we need may be invalidated and may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion, or may involve requirements which restrict our ability to conduct our operations or to do so profitably.

Our competitors may also seek to deny our rights to develop certain natural resource deposits by challenging our compliance with tender rules and procedures or compliance with license terms. Political factors can also influence whether any alleged non-compliance by us with licensing regulations and the terms of our licenses could lead to suspension or termination of our licenses and permits, and to administrative, civil and criminal liability.

The legal and regulatory basis for the licensing requirements is often unclear, and ministerial acts and instructions that attempted to clarify licensing requirements are often inconsistent with legislation, which increases the risk that we may be found in non-compliance. In addition, it is possible that licenses applied for and/or issued in reliance on acts and instructions relating to subsoil rights issued by the Ministry of Natural Resources could be challenged by the Prosecutor General's office or otherwise as being invalid if they were found to be beyond the authority of that ministry. In particular, deficiencies of this nature subject subsoil licensees to selective and arbitrary governmental claims. In the event that the licensing authorities discover a material violation by us, we may be required to suspend our operations or incur substantial costs in eliminating or remedying the violation, which could have a material adverse effect on our business or results of operations.

We sell most of our exported steel products to three international wholesale traders, and any failure by these traders to satisfy their payment obligations to us, or any termination of our relationship with them, may adversely affect our business, results of operations and financial condition.

We sell to three international wholesale traders that account for most of our export sales. In 2004, Steelco Mediterranean Ltd., or Steelco, Tuscany Intertrade (UK), or Tuscany, and Moorfield Commodities Company, or Moorfield, purchased 43%, 30% and 17%, respectively, of our export sales (and 43%, 25% and 17%, respectively, in the nine months ended September 30, 2005). These three international wholesale traders are currently under common ownership, but are not related parties of NLMK. See "Business — Sales Division and Marketing — Export Sales". We typically require these traders to pay for the steel products that they purchase from us within sixty days of delivery and we do not currently receive from them any form of credit support for their payment obligations to us. Any failure by these international wholesale traders to satisfy their payment obligations to us may adversely affect our financial condition and results of operations.

Although we try to maintain direct contact with the customers of Steelco, Tuscany and Moorfield, the termination of our relationship with any of these wholesale traders may result in the termination of our relationship with some of the end-customers in the markets where our products are exported, and may adversely affect our ability to sell to certain export markets and our business and results of operations.

We are the largest employer in Lipetsk and we are responsible for maintaining part of the social and physical infrastructure in the Lipetsk area, which requires a substantial commitment of resources.

We have been responsible for establishing some of the social and physical infrastructure in and around the City of Lipetsk and currently own various social assets, including a hospital and day care clinic. Although in recent years the economy of the Lipetsk area has become more diversified with the development of other industries, the region remains economically dependent on our business to a significant degree. We are by far the largest employer in Lipetsk, and we estimate that our payments to the City of Lipetsk account for the majority of the City's total budget. We expect that the City of Lipetsk will continue to rely on us for a substantial portion of its budget and that we will continue to need to maintain our current commitments in respect of social, employment and welfare infrastructure in the Lipetsk area. In addition, our ability to effect alterations in the

number of our employees may be subject to political and social considerations. Any inability to make planned reductions in the number of our employees or other changes to our operations in Lipetsk could have an adverse effect on our financial results.

Our competitive position and future prospects depend on our senior management's experience and expertise.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team. The loss or diminution in the services of members of our senior management team or an inability to attract, retain and maintain additional senior management personnel could have a material adverse effect on our business, financial condition, results of operations or prospects. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation seriously affects our ability to retain our existing senior management and attract additional qualified senior management personnel, which could have a significant adverse effect on our business and financial results.

Our existing arrangements with our trade union may not be renewable on terms favorable to us, and our operations could be adversely affected by strikes and lockouts.

As of September 30, 2005, approximately 94% of our employees were represented by a trade union. Although we have not experienced any business interruption at any of our businesses as a result of labor disputes and we consider our employee relations to be satisfactory, large union representation subjects our businesses to the threat of interruptions through strikes, lockouts or delays in renegotiations of labor contracts. Our existing collective bargaining agreement with our trade union is due to expire in 2007. We may not be able to renew it on terms favorable to us. In this event, our business and results of operations could be materially adversely affected.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and inability to rebuild in a timely manner or at all.

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption, freight and director and officer liability. Other coverage, such as coverage for third party liabilities for property or environmental damage, are limited. Accordingly, although we currently insure our main plant against a range of risks and substantially all of that insurance is re-insured with international re-insurers, we may be subject to claims which are not covered, or not sufficiently covered, by insurance. Any such loss or claim may have a material adverse effect on our business, results of operations and financial condition.

Our privatization or the title to any privatized company that we acquire may be challenged.

We were privatized by the state, beginning in 1993, and several of our businesses consist of privatized companies, including Stoilensky GOK, which was privatized beginning in 1992. In addition, our business strategy may involve the acquisition of additional privatized companies. Privatization legislation in Russia is generally considered to be vague, internally inconsistent and in conflict with other domestic legislation. As a result, most, if not all, privatizations are arguably deficient and vulnerable to challenge at least on formal grounds. Although the statute of limitations for challenging transactions entered into in the course of privatizations has recently been reduced from 10 years to 3 years, we cannot assure you that the statute of limitations will not be subject to further amendment.

No action has been taken towards the invalidation of our status, or the status of our subsidiaries, as privately-owned companies and, currently, there are no challenges pending to our privatization or the privatization of our subsidiaries. In the event that our privatization is successfully challenged, our controlling shareholder could lose his interests in our shares, resulting in a change in control which could materially affect our business and results of operations, and the interests of other investors in our Shares or GDSs may also be adversely affected. In the event that any title to, or our ownership stakes in, any privatized company acquired by us, is subject to challenge as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially affect our business and results of operations.

If transactions we or our predecessors have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities imposed on us.

We and our predecessors have taken a variety of actions relating to share issuances, share disposals and acquisitions, valuation of property, interested party transactions, major transactions and anti-monopoly issues, in respect of which we, or our predecessors, did not fully comply with applicable legal procedures and which, therefore, could be subject to a legal challenge. A successful challenge against us for not complying with applicable legal requirements could result in the invalidation of those transactions or the imposition of liabilities on us. Moreover, since applicable provisions of Russian law are subject to many different interpretations, we may not be able to successfully defend any challenge brought against similar transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations. See also “Risks Relating to the Russian Federation — Legal Risks and Uncertainties — Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of the Shares and GDSs”.

In the event that our minority shareholders or the minority shareholders of our subsidiaries were to successfully challenge past interested party transactions, including our acquisition of Stoilensky GOK, or do not approve interested party transactions in the future, we could be limited in our operational flexibility and our results of operations could be materially adversely affected.

Approximately 10% of our shares have been, and will continue to be until the date of the offering, held by minority shareholders. In addition, we own less than 100% of the equity in many of our subsidiaries, with the remaining equity balance being held by minority shareholders. Due to the way in which the Russian law on interested party transactions is drafted, the special approval procedures that apply to interested party transactions also apply to transactions between entities within a consolidated group. The failure to obtain necessary approvals for transactions between us and our subsidiaries could result in the invalidation of these transactions and adversely affect our business. Both we and these subsidiaries have in the past carried out, and continue to carry out, numerous transactions which may be considered “interested party transactions” under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders. The concept of “interested parties” is defined with reference to the concepts of “affiliated persons” and “group of persons”, which are subject to many 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. We cannot be certain that our compliance with these provisions will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to our business and could have a material adverse effect on our business, financial condition, results of operations or prospects. See “Principal and Selling Shareholders” and “Transactions with Related Parties”.

On some occasions, interested party transactions involving members of our Group, which under Russian law require advance shareholder or board approval from the relevant companies, have not been submitted for such approval. In March and October 2004 we purchased 91% of the shares in Stoilensky GOK from related parties. See “Transactions with Related Parties”. This acquisition may be considered an interested party transaction for the purposes of Russian law, requiring advance approval of our shareholders voting at a general meeting. The advance approval was not obtained. We subsequently submitted the acquisition to our shareholders for ratification at the annual general shareholders meeting in May 2005; however, the necessary quorum was not secured and it was therefore not possible to ratify the transaction at that meeting. The acquisition of shares in Stoilensky GOK was eventually approved at the general shareholders meeting in November 2005. We believe that this ratification has mitigated the risk of invalidation of the acquisition but has not completely eliminated it: Russian law requires advance approval of an interested party transaction, and is unclear as to whether ratification can cure a failure to obtain the required approval of the disinterested shareholders in advance. The statute of limitations for bringing a challenge to an interested party transaction is one year from the date on which a shareholder learned or should have learned about the violation in question. A challenge of our Stoilensky GOK acquisition, if successful, would have a material adverse effect on our business, financial condition and results of operations.

Other companies within our Group, including Stoilensky GOK, sometimes ratify interested party transactions after the event, which runs the risk of invalidation similar to that described above.

In addition, Russian law requires a three-quarters’ majority vote of the holders of voting stock present at a shareholders’ meeting to approve certain transactions, including, for example, charter amendments, major

transactions involving assets in excess of 50% of the assets of the company, repurchase by the company of shares and share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other transactions requiring supermajority approval. In the event that these minority shareholders were to successfully challenge past interested party transactions, or do not approve interested party or other transactions in the future, we could be limited in our operational flexibility and our results of operations could be materially adversely affected.

Risks Relating to Business Operations in Emerging Markets

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Moreover, financial turmoil in any emerging market country tends to affect adversely 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 Russia and affect adversely 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 seriously disrupt our business, as well as result in a decrease in the price of the Shares and GDSs. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out in this prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. We urge you to consult with your own legal and financial advisors before making an investment in the Shares and GDSs.

Risks Relating to the Russian Federation

Economic Risks

Economic instability in Russia could adversely affect our business.

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

- significant declines in gross domestic product and consumption;
- hyperinflation;
- an unstable currency, including periods of significant decline in the value of the ruble against foreign currencies;
- high government debt relative to gross domestic product;
- significant declines in the CBR's gold and foreign currency reserves;
- a weak banking system providing limited liquidity to domestic enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings and the use of fraudulent bankruptcy actions to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble, 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 August 17, 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian economy has experienced positive trends, such as the increase in the gross domestic product, a relatively stable currency, increasing foreign currency reserves, strong domestic demand, rising real wages and a reduced rate of inflation. These trends, however, may not continue or may be abruptly reversed. A decline in the Russian economy would have a significant impact on our business.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia'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 applications. The August 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. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. For example, many banks are still in transition to reporting in accordance with International Financial Reporting Standards or U.S. GAAP. Aided by inadequate supervision by the regulators, many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by a deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, in 2004, the CBR revoked the licenses of some Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Several privately-owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

Our ability to hold foreign currency cash in foreign banks located outside Russia is subject to Russian currency control regulations, including the requirement to notify the tax authorities of the opening of any such foreign accounts, as well as reservation requirements with respect to the transfer of funds to those foreign accounts from Russia. Bank accounts in countries which are not members of the Organisation for Economic Co-operation and Development or the Financial Action Task Force are also required to be registered with the CBR prior to opening. We currently hold all of our excess ruble and foreign currency cash in Russian banks, including our subsidiary bank and subsidiaries of foreign banks. There is currently a limited number of creditworthy Russian banks, most of which are located in Moscow. We have tried to reduce our risk by receiving and holding funds in a number of Russian banks, including our subsidiary bank, as well as subsidiaries of foreign banks. A banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial conditions and results of operations.

The physical infrastructure in Russia is in very poor condition, which could disrupt normal business activity.

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. Road and rail conditions throughout Russia are poor, with many not meeting minimum quality requirements. Some areas within Russia, particularly those surrounding ageing nuclear power plants, are potentially hazardous. The Russian government is actively considering plans to reorganize the nation's rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations. These difficulties can impact us directly, for example, if the transportation of our raw materials or steel products is disrupted, or the supply of energy is interrupted. Further deterioration in the physical infrastructure could have a material adverse effect on our business.

Fluctuations in the global economy may materially adversely affect the Russian economy and our business.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. 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 Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting those businesses and the Russian economy. Additionally, the Russian economy remains poorly diversified and retains a high degree of reliance on the natural resources sector. For example, as Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market, and a decline in the price of oil could slow or disrupt the Russian economy. Russia is also a major producer and exporter of metal products, and its economy is vulnerable to world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union, countries in South-East Asia or by other principal export markets. See "Regulatory Matters — Trade Barriers and Anti-Dumping Regulations".

We are subject to the risk of expropriation and nationalization.

The Russian government has enacted legislation to protect property against expropriation and nationalization. In the event that our property is expropriated or nationalized, legislation provides for fair compensation. However, there can be no certainty that such protection would be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, an independent judiciary or sufficient mechanisms to enforce judgments and corruption among state officials. It is possible that, due to a lack of experience in enforcing these provisions or due to political change, legislative protection may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our, or our subsidiaries', assets, potentially with little or no compensation, would have a material adverse effect on us. The concept of property rights is not well developed in Russia and there is little experience in enforcing legislation enacted to protect private property against nationalization and expropriation. As a result, we may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the state decided to nationalize or expropriate some or all of our assets. If this occurs, our business, results of operations and financial condition could be significantly harmed.

Political and Social Risks

Political and governmental instability could materially adversely affect the value of the Shares and GDSs.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Moreover, the composition of the Russian government, the prime minister and the other heads of federal ministries has, at times, been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned. Vladimir Putin was subsequently elected president on March 26, 2000 and re-elected for a second term on March 14, 2004. Throughout his first term in office, President Putin maintained governmental stability and accelerated the reform process. In February 2004, President Putin dismissed his entire cabinet, including the prime minister. This was

followed on March 12, 2004 by President Putin's announcement of a far-reaching restructuring of the Russian government, with the stated aim of making the government more transparent and efficient. As part of this restructuring, the number of ministries was reduced from 30 to 16 and the government was divided into three levels: ministries, services and agencies. In addition to the restructuring of the Russian federal government, election procedures have recently been amended as a result of which the heads of sub-federal political units are no longer directly elected by population, but instead are nominated by the President of the Russian Federation and confirmed by the legislature of the relevant sub-federal political unit. Further amendments to electoral laws have eliminated individual contests in State Duma elections, so that voters may only cast ballots for political parties.

Signs of a breakdown in the consensus among key governmental officials are beginning to appear, raising questions about the direction of future economic reforms. Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms, which could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing in the international capital markets, hinder our access to raw materials in and limit our sales in Russia, and otherwise harm our business and results of operations. For example, the Russian government has announced that it plans to introduce laws limiting foreign ownership of sectors that "ensure national security", which, subject to location and size criteria, include oil and ore deposits. It is currently expected that a revised draft of these laws will be submitted to the Russian parliament in early 2006, although the precise scope of these laws is currently uncertain.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos, then Russia's largest oil company by production, on tax evasion and related charges. In May 2005, Khodorkovsky and Lebedev were convicted of several of these charges and sentenced to a term of imprisonment of nine years, which was subsequently reduced to eight years. Significant back tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz, and the effective destruction of Yukos. Yuganskneftegaz was acquired, indirectly, by OAO NK Rosneft, a state-owned oil company, resulting in the first effective renationalisation of a significant company privatized in the 1990s. Some analysts contend that the arrests, destruction of Yukos and renationalization of Yuganskneftegaz portend a willingness on the part of the government to reverse key political and economic reforms of the 1990s, including some privatizations. Other analysts, however, believe that these arrests were isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider program of asset redistribution. In July 2005, President Putin approved new legislation which reduces the statute of limitations on privatization transactions from ten years to three years. President Putin stated that tax authorities should not "terrorize" taxpayers by repeatedly considering the same problems. It is unclear, though, what impact these actions will have on the future. For further discussion of recent activities by Russian tax authorities, see "— Legal Risks and Uncertainties — Unlawful or arbitrary government action may have a material adverse effect on our business and the value of the Shares and GDSs" and "— Legal Risks and Uncertainties — Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor tax payers, and we may therefore be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations".

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment hindering our long-term planning ability and could materially adversely affect the value of investments in Russia, including the value of the Shares and GDSs.

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws, and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have, in the past, been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy. See "Risks Relating to Our Business and Industry — Our privatization or the title to any privatized company that we acquire may be challenged" and "— Legal Risks and Uncertainties — Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of the Shares and GDSs".

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, and several terrorist attacks have been carried out by Chechen terrorists throughout Russia, including in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business and the value of investments in Russia, including the value of the Shares and GDSs.

Crime and corruption could disrupt our ability to conduct our business as we have in the past and could materially adversely affect our financial condition and results of operations.

The political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant criminal activity, including organized crime, has arisen, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of official corruption in the locations where we conduct our business, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of the government or certain individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption may, in the future, bring negative publicity, could disrupt our ability to conduct our business effectively and could thus materially adversely affect our financial condition and results of operations.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads and, in early 2005, pensioners in cities across Russia protested against the replacement of various in-kind benefits with cash allowances. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, with restrictions on foreign involvement in the economy of Russia, and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenue, materially adversely affecting our operations.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of the Shares and GDSs.

Russia is still developing the legal framework required to support a market economy. The following risk factors relating to the Russian legal system create uncertainties, many of which do not exist in countries with more developed market economies, with respect to the legal and business decisions that we make:

- inconsistencies between and among the Constitution, laws, Presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the relative inexperience of judges and courts in interpreting legislation relating to commercial matters;
- reported corruption within the judiciary;
- the lack of judicial independence from political, social and commercial forces;

- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

Furthermore, several fundamental laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of some laws in doubt and result in ambiguities, inconsistencies and anomalies. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and under our contracts, or to defend ourselves against claims by others. We cannot assure you that regulators, judicial authorities or third parties will not challenge our internal procedures and by-laws or our compliance with applicable laws, decrees and regulations.

Additionally, as we expand our business and partnerships beyond Russia, seek international financing for our activities and source equipment and technologies from abroad, our directors and executive officers will need to be able to travel abroad regularly and often on short notice. Unlike the European Union, the United States and certain other countries, Russia has very few, if any, bi-lateral agreements with countries allowing for visa-free travel, other than certain countries of the CIS. Our directors and executive officers, therefore, may not be able to obtain visas on a timely basis or at all to travel to certain countries. In cases where the granting of a visa is denied by the relevant authorities, the denial often is not subject to appeal or any higher review and the reasons for the denial generally are not provided.

Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions, which could materially adversely affect our business, financial condition, results of operations and prospects.

Our operations and properties are subject to regulation by various government entities and agencies. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses and permits and in monitoring licensees' compliance with their terms. We have, in the past, been subject to fines or other penalties for non-compliance with tax, environmental, labor and other laws and regulations. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations.

Our failure to comply with existing laws and regulations or the findings of government inspections may result in the imposition of fines or penalties or more severe sanctions, including the suspension, amendment or termination of our licenses and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to us or our officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects. See "Risks Relating to Our Business and Industry — Russian competition law may restrict our ability to determine the prices of our products".

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you from obtaining effective redress in a court proceeding, materially adversely affecting the value of the Shares and GDSs.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia cannot be assured. The court system in Russia is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the

government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes. These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our group companies, their assets or any portion thereof, potentially without adequate compensation, could have a material adverse effect on our business and prospects.

Unlawful or arbitrary government action may have a material adverse effect on our business and the value of the Shares and GDSs.

Governmental authorities have a high degree of discretion in Russia and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the government has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In 2003 and 2004, the Ministry for Taxes and Levies, the predecessor of the Federal Tax Service, took forceful measures against certain Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. For example, the Russian Federal Tax Service determined that Yukos owes in excess of \$28 billion in back taxes and related penalties, and, as noted above, in December 2004 Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. However, in April 2005, according to press reports, a back tax claim against TNK-BP for 2001 was increased by approximately \$842 million, bringing the total claim for 2001 against TNK-BP to approximately \$982 million, although the claim was subsequently substantially reduced. It has also been reported that, in 2005, the oil companies, Sibneft and Lukoil, incurred liabilities for back tax claims of approximately \$300 million and \$163 million, respectively. Unlawful or arbitrary government action, if directed at us, could have a material adverse effect on our business and on the value of the Shares and GDSs.

Developing corporate and securities laws and regulations in Russia may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Service for the Financial Markets;
- the Ministry of Finance;
- the Federal Antimonopoly Service;
- the CBR; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance.

Because there is little minority shareholder protection in Russia, your ability to bring, or recover in, an action against us will be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for some corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on some types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See “Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital” for a more detailed description of some of these protections. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Shareholder meetings have been irregularly conducted, and shareholder resolutions have not always been respected by management. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders’ meeting. As a result, a controlling shareholder owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders’ meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder and our management in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could materially and adversely affect the value of the Shares and GDSs.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us and our subsidiaries or to our shareholders could materially adversely affect the value of the Shares and GDSs.

While the Russian Federal Law on Joint Stock Companies, or the Joint Stock Companies Law, provides that shareholders owning not less than 1% of the company’s stock may bring an action for damages on behalf of the company, Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us and the Selling Shareholder may be limited, reducing the protections available to you as a holder of our Shares and GDSs.

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

The Civil Code of the Russian Federation, the Joint Stock Companies Law, the Federal Law on Limited Liability Companies and the Federal Law on Insolvency (Bankruptcy) generally provide that shareholders in a Russian joint stock company and members of a Russian limited liability company are not liable for the obligations of the joint stock company and the limited liability company, respectively, and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is deemed an “effective parent”. The entity whose decisions are capable of being so determined is deemed an “effective subsidiary”. Under Russian legislation, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent’s ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other

shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable, in some cases, for the debts of our consolidated subsidiaries. This liability, which is secondary in the case of the subsidiary's insolvency or bankruptcy or joint and several with the liability of the subsidiary in the case of responsibility for transactions concluded by the subsidiary in carrying out our mandatory instructions, could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law may impose additional costs on us, which could materially adversely affect our financial condition and results of operations.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth 25% or more of the gross book value of the company's assets calculated according to the Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of the company's charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries') obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our results of operations and financial condition.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the Shares and the Shares underlying the GDSs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. 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. See "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Registration and Transfer of Shares" and "Description of the Global Depositary Shares — Russian Share Register" for a further discussion of the share registration system and registrars in the Russian Federation.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor tax payers, and we may therefore be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added tax, or VAT;
- excise taxes and import duties;
- unified social tax; and
- corporate property tax.

The tax environment in Russia historically has been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. For example, tax laws are unclear with respect to the deductibility of certain expenses and, as a result, at times, we may have taken positions that could be subject to challenge by tax authorities, but that we consider to be in compliance with current law. This uncertainty potentially exposes us to the risk of significant fines and penalties and enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of our licenses.

As a result of the political changes that have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation, or the Tax Code, which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and corporate property tax with new chapters of the Tax Code.

In practice, the Russian tax authorities often interpret the tax laws in a way that does not favor taxpayers, who often have to 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 organizations 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 authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years preceding the year in which the audit is carried out. Previous audits do not exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to revisit the results of tax audits conducted by subordinate tax inspectorates. In addition, in some instances, new tax regulations have been given retroactive effect. Recently, the Constitutional Court of the Russian Federation issued a decision that provides grounds for the tax authorities to disregard the statute of limitations in relation to claims for fines, penalties and interest on underpaid amounts of tax in circumstances where the taxpayer is deemed to provide inadequate cooperation to the tax authorities. Since the term “inadequate cooperation” is not defined under Russian tax law, this decision potentially grants considerable discretion to the Russian tax authorities to disregard the statute of limitations in their tax investigations. The current draft of the 2006 state budget envisages that the amount of unpaid taxes to be claimed by the Russian tax authorities following tax inspections in 2006 will amount to approximately \$1 billion.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. These risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could materially adversely affect our business and the value of the Shares and GDSs. See also “— Legal Risks and Uncertainties — Unlawful or arbitrary government action may have a material adverse effect on our business and the value of the Shares and GDSs”.

Burdensome Russian tax legislation and regulations may adversely affect our business and results of operations.

The financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the profit or loss of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9%, if distributed to Russian residents, or 15%, if distributed to foreign residents. If the company that receives the intercompany dividend is Russian and itself pays a dividend to a Russian resident, the receiving company may offset the amount of withholding tax on the dividend it received against the tax the receiving company is required to withhold on the dividend it pays to the Russian resident. These and other tax requirements impose additional burdens and costs on our operations, including management resources.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact our business and results of operations.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant price fluctuations. Special transfer pricing rules have been developed for operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and arbitration

courts and their use in politically motivated investigations and prosecutions. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. We believe that the prices used by our group are market prices and, therefore, comply with the requirements of Russian tax law on transfer pricing. However, due to the uncertainties in the interpretation of transfer pricing legislation, the tax authorities may challenge our prices and propose adjustments. If such price adjustments are upheld by the Russian arbitration courts and implemented, our results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which would have a material adverse effect on our financial condition and results of operations.

Risks Relating to the Shares, the GDSs and the Trading Market

Our controlling shareholder has the ability to exert significant influence over us, and his interests may conflict with those of other holders of our shares, including the Shares and GDSs.

Our controlling shareholder will beneficially own 82.84% of our outstanding shares following the offering (81.79% if the over-allotment option is exercised in full). As a result of his interest in us, our controlling shareholder has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, the increase or decrease of our authorized share capital, the election of directors, the declaration of dividends, the appointment of management and other policy decisions. Moreover, we have only four directors who are independent directors in accordance with the criteria set out in the Joint Stock Companies Law and our Corporate Governance Code, which differ in some respects from the criteria for independent directors that are set out, for example, in the U.K. Combined Code. The interests of our controlling shareholder could conflict with the interests of our other shareholders, including the holders of the Shares and GDSs, and he may make decisions that materially adversely affect your investment in the Shares and GDSs.

Because the Depositary may be considered the beneficial holder of the Shares represented by the GDSs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Because Russian law may not recognize GDS holders as beneficial owners of the underlying Shares, it is possible that holders of GDSs could lose all of their rights to those Shares if the Depositary's assets in Russia are seized or arrested. In that case, they would lose all the money they invested.

Russian law may treat the Depositary as the beneficial owner of the Shares underlying the GDSs. This is different from the way other jurisdictions treat GDSs. In the United States, although shares may be held in the Depositary's name or to its order, making it a "legal" owner of the shares, the GDS holders are the "beneficial," or real owners. In U.S. courts, an action against the Depositary, the legal owner of the shares, would not result in the beneficial owners losing their shares. Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the Depositary in whose name the Shares are held, not the rights of GDS holders, to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying GDSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary bank other than Deutsche Bank Trust Company Americas seeking the attachment of various Russian companies' shares represented by GDSs issued by that depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the Shares underlying our GDSs were to be seized or arrested, the GDS holders involved would lose their rights to such underlying Shares.

Voting rights with respect to the Shares represented by the GDSs are limited by the terms of the Deposit Agreements for the GDSs and relevant requirements of Russian law.

GDS holders will have no direct voting rights with respect to the Shares represented by the GDSs. They will be able to exercise voting rights with respect to the Shares represented by GDSs only in accordance with the provisions of the Deposit Agreements relating to the GDSs and relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of GDS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, our charter requires us to notify shareholders at least 30 days in advance of any meeting and, in relation to an extraordinary meeting to elect directors, the Joint Stock Companies Law requires at least 50 days' notice. Our common shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no U.S., English or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares are listed or admitted to trading), to mail to GDS holders notice of the meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDS holders must then instruct the Depositary how to vote the Shares represented by the GDSs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for them than for holders of the Shares and we cannot assure GDS holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDSs 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 Shares underlying the GDSs in accordance with instructions from GDS holders, such regulations remain untested, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDS holders to vote the Shares in the same manner. GDS holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDSs. There can be no assurance that holders and beneficial owners of GDSs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Description of the Global Depositary Shares — Voting Rights" for a description of the voting rights of holders of GDSs.

Holders of GDSs will not be able to instruct the Depositary to (i) vote the Shares represented by their GDSs 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 our Board of Directors or our review commission. If you wish to take such actions, GDS holders must timely request that their GDSs be cancelled and take delivery of the Shares and thus become the owner of the Shares on our share register.

Because there has been no prior market for the GDSs and only a limited public market for the Shares, the offering may not result in an active or liquid market for the Shares or GDSs, and their price may be highly volatile.

Before the offering, there has been no prior market for the GDSs and no active public market for the Shares. Although applications have been made to the U.K. Listing Authority for the GDSs to be admitted to the Official List and to the London Stock Exchange for such GDSs to be admitted to trading on the Regulated Market, an active public market may not develop or be sustained after the offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the GDSs does not develop, the price of the GDSs may become more volatile and it may be more difficult to complete a buy or sell order for the GDSs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDS holders are entitled to withdraw the Shares underlying the GDSs from the Depositary, there is a very limited public free float for our shares (constituting approximately 4.4%) on the RTS Stock Exchange, where they are currently listed.

The trading prices of the Shares and GDSs may be subject to wide fluctuations in response to a number of factors, including:

- variations in our operating results and those of other steel and mining companies and those of other Russian companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

In addition, the Russian stock markets have experienced extreme price and volume fluctuations. These market fluctuations could adversely affect the value of the Shares and GDSs. Moreover, the market price of the Shares and GDSs may decline below the offering price, which will be determined by the results of the bookbuilding exercise conducted by the Underwriters.

There may be some delay between the time at which notices published in relation to the Shares on the RTS Stock Exchange are published on the London Stock Exchange.

The Shares are traded on the RTS Stock Exchange while the GDSs will be traded on the London Stock Exchange's Regulated Market. You should be aware that the RTS Stock Exchange and the London Stock Exchange are not open for trading simultaneously at all times. As a result of the different opening times and dates of the RTS Stock Exchange, on which the Shares are listed, and the London Stock Exchange, on which we have applied to have the GDSs listed, there may be some delay between the time at which notices published in relation to the Shares on the RTS Stock Exchange are published on the London Stock Exchange.

You may be unable to repatriate your earnings from distributions made on the GDSs.

In its Information Letter of March 31, 2005 No. 2, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are not Russian residents. We believe that this declaration has not yet been widely tested in practice and we can give no assurance that it will not be reversed in the future. If Russian companies were again required to pay all dividends on common shares in rubles, current Russian legislation permits such ruble funds to be converted into U.S. dollars by the Depositary without restriction. The CBR has the right to introduce a 100% reserve requirement for the acquisition by residents of foreign currency for a period of up to 60 calendar days, which may impact on the timing of payment of dividends.

The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble- and ruble-denominated investments.

Future sales of our shares or GDSs may affect the market price of the Shares or GDSs.

Sales, or the possibility of sales, of substantial numbers of our shares, or our shares in the form of GDSs, in the public markets, including the Russian stock market, following the offering could have an adverse effect on the trading prices of the Shares or GDSs or could affect our ability to obtain further capital through an offering of equity securities. Subsequent equity offerings may reduce the percentage ownership of our existing shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Shares.

You may not be able to benefit from double tax treaties.

In accordance with Russian legislation, dividends paid to a non-resident holder of Shares or GDSs generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals. This tax may be reduced to 10% for legal entities and organizations and to 10% for individuals under the United States-Russia double tax treaty for U.S. holders entitled to treaty benefits and to 10% under the United Kingdom-Russia double tax treaty for U.K. holders entitled to treaty benefits. However, the Russian tax rules applicable to GDS holders are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005, the Russian Ministry of Finance expressed an opinion that GDS holders should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the GDS holders are duly confirmed. However, in the absence of any specific provisions in the Russian 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 GDS holders in this regard. Thus, in the absence of any official interpretative guidance on the concept of beneficial ownership for Russian tax purposes, we will likely withhold tax at higher rates when paying dividends to holders of the GDSs and U.S. and U.K. holders of GDSs may be unable to benefit from the relevant income tax treaties. See "Taxation — Certain Russian Tax Law Considerations" for further details.

Capital gains from the sale of GDSs may be subject to Russian income tax.

Under Russian tax legislation, gains arising from the sale, exchange or other disposition by legal entities or organizations of Russian shares and securities, such as the Shares, as well as financial instruments derived from such shares, such as the GDSs, may be subject to Russian profits tax or withholding tax. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from the sale, exchange or other disposition of the foregoing types of securities listed on foreign stock exchanges on such stock exchanges by non-resident holders that are legal entities are not subject to taxation in Russia. Therefore, so long as the GDSs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition on the London Stock Exchange of GDSs by non-resident legal entities or organizations should not be subject to taxation in Russia.

Gains arising from the sale, exchange or other disposition of the Shares or GDSs outside of Russia by holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income and will not be taxable in Russia. Gains arising from sale, exchange or other disposition of the Shares or GDSs in Russia by holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities. See “Taxation — Certain Russian Tax Law Considerations”.

There are limits on the number of shares that can be deposited in the GDS program.

In order to increase the percentage of our issued share capital listed on the U.K. Listing Authority’s Official List and admitted to trading on the Regulated Market of the London Stock Exchange above the 40% for which we have applied, we would be required to produce a further prospectus and may not be in a position to do so. In any case, Russian securities regulations currently provide that no more than 40% of a Russian company’s shares may be circulated abroad through sponsored depositary receipt programs. Accordingly, there are significant practical and legal limitations which effectively cap the size of our GDS program at 40% of our issued share capital. At present, we have approval from the Russian securities regulatory authorities for only 25% of our shares to be circulated abroad. Upon completion of the offering and assuming exercise of the over-allotment option in full, our GDS program would have a remaining capacity of 16.9% of our outstanding shares if all the Shares offered in the offering are ultimately held in the form of GDSs. We cannot guarantee that we will be able to obtain approval for the deposit of a greater number of shares in our GDS program than we currently have approval for, and any remaining capacity may be used by our other existing shareholders. Accordingly, you may not be able to deposit shares into our GDS program in order to receive GDSs.

You may have limited recourse against us and our directors and executive officers because we generally conduct our operations outside the United States and the United Kingdom and all but one of our current directors and executive officers reside outside the United States and the United Kingdom.

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. All but one of our current directors and executive officers reside outside the United States and the United Kingdom, principally in the Russian Federation. All or a substantial portion of our assets and the assets of our current directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us or our directors and executive officers or to enforce U.S. or U.K. court judgments obtained against us or our 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 you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. 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 you of effective legal recourse for claims related to your investment in the Shares and GDSs. The Deposit Agreements provide for actions brought by any party thereto against us 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 favor of foreign investors and Russian courts' inability to enforce such orders and corruption.

Other Risks

We have not independently verified information regarding the metals and mining industry, nor have we independently verified official data from Russian government agencies.

We have 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 we have 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 than those used in Western countries. Any discussion of matters relating to Russia in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and charged in connection with their misuse of economic data.

THE OFFERING

NLMK OJSC Novolipetsk Steel.

The Selling Shareholder Veft Enterprises Limited, a company incorporated under the laws of Cyprus. The Selling Shareholder is beneficially owned by Mr. Vladimir Lisin, our controlling shareholder and the Chairman of our Board of Directors.

The Offering The Selling Shareholder intends to offer 420,000,000 Shares in an international simultaneous offering of Shares and GDSs, with each GDS representing 10 Shares. The Shares have been issued in accordance with the legislation of the Russian Federation. The GDSs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States to certain persons in offshore transactions in reliance on Regulation S. The Shares are being offered in the Russian Federation and outside the United States to certain persons in offshore transactions in reliance on Regulation S. The GDSs will be issued by Deutsche Bank Trust Company Americas, as depositary, which we refer to as the Depositary. We are not selling any Shares or GDSs in the offering.

The Shares Our current share capital consists of 5,993,227,240 shares, all of which are fully paid, issued and outstanding, with a nominal value of 1 ruble each. Following the offering, Mr. Vladimir Lisin, our controlling shareholder and the Chairman of our Board of Directors, will beneficially own 82.84% of our outstanding shares, or 81.79% of our outstanding shares if the Underwriters exercise their over-allotment option in full. Our Shares have the rights described under “Description of Share Capital and Certain Requirements of Russian Legislation”.

The GDSs Each GDS will represent 10 Shares on deposit with the Custodian. The GDSs will be issued by the Depositary pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDSs, or the Rule 144A Deposit Agreement, and one relating to the Regulation S GDSs, or the Regulation S Deposit Agreement, among us, the Depositary and holders and beneficial owners from time to time of the relevant GDSs. The Rule 144A Deposit Agreement and the Regulation S Deposit Agreement are referred to in this prospectus to as the Deposit Agreements. The Regulation S GDSs will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDSs will be evidenced initially by a Master Rule 144A GDR, each to be issued by the Depositary pursuant to the relevant Deposit Agreement. The Master Regulation S GDR and the Master Rule 144A GDR are referred to in this prospectus as the Master GDSs. Pursuant to the Deposit Agreements, the Shares represented by the GDSs will be held in Russia by Deutsche Bank Ltd., as Custodian, for the benefit of the Depositary and, for the further benefit of, the holders and beneficial owners of GDSs.

Except in the limited circumstances described in this prospectus, definitive GDR certificates will not be issued to holders in exchange for interests in the GDSs represented by the Master GDSs. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDSs represented by the Master Rule 144A GDR, and vice versa. See “Description of the Global Depositary Shares”, “Settlement and Delivery — Secondary Market Trading” and “Settlement and Delivery—Registration and Form”.

Offer Price	\$1.45 per Share. \$14.50 per GDS.
Closing Date	On or around December 14, 2005.
Over-Allotment Option	The Selling Shareholder has granted to the Joint Bookrunners, on behalf of the Underwriters, an over-allotment option, exercisable from time to time for a period of 30 days from the announcement of the offer price, to purchase or procure purchasers for up to additional Shares, in the form of GDSs, at the offer price referred to above and on the terms and conditions of the offering, solely to cover over-allotments, if any, in the offering and to cover short positions resulting from stabilization activities. See “Plan of Distribution”.
Lock-up	We, the Selling Shareholder and certain of our other shareholders holding in aggregate approximately 93% of our shares prior to the offering have agreed, as part of the arrangements with the Underwriters, for a period of 180 days after the Closing Date, subject to certain limited exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any of our shares or securities convertible or exchangeable into or exercisable for any of our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of our shares, including equity swaps, forward sales and options or GDSs representing the right to receive any of our shares, without prior written consent of the Underwriters, save as contemplated as part of the offering described herein. See “Plan of Distribution”.
Transfer Restrictions	The Shares and GDSs will be subject to restrictions on transfer as described under “Description of the Global Depositary Shares” and “Plan of Distribution”.
Dividend Policy	Our dividend policy targets dividend payments of 25% of our annual net income and provides for a minimum annual dividend payment of at least 15% of our annual net income, as determined under U.S. GAAP. The amount of any dividend payment for any particular period is subject to the recommendation of the Board of Directors and approval by our shareholders and restrictions under Russian law. See “Dividend Policy”.
Listing and Market for the Shares and GDSs	Applications have been made to (i) the U.K. Listing Authority for a listing of up to 239,729,089 GDSs, consisting of up to 42,000,000 GDSs to be issued on the Closing Date, up to 6,300,000 additional GDSs to be issued pursuant to the over-allotment option, as described herein, and up to 191,429,089 additional GDSs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) the London Stock Exchange for such GDSs to be admitted to trading on the Regulated Market. Application has also been made to have the Rule 144A GDSs listed on PORTAL. Our existing shares are listed on the RTS Stock Exchange. Prior to the offering, there has been no market for the GDSs and only a limited public market for the Shares. Conditional trading in the GDSs on the London Stock Exchange is expected to commence on a when and if issued basis on December 9, 2005. Admission of the GDSs to the Official List and to trading on the Regulated Market is expected to take place on December 15, 2005, following closing and settlement therefor on or around December 14, 2005.

Upon completion of the offering and assuming exercise of the over-allotment option in full and that all Shares offered thereunder are ultimately held in the form of GDSs, an additional 1,015,306,810 Shares may be deposited, subject to the provisions set forth under “Description of the Global Depositary Shares” and in the Deposit Agreements, with the Custodian against which the Depositary shall issue GDSs representing such Shares up to the maximum aggregate number of 149,830,681 GDSs. The maximum aggregate number of GDSs that can be issued under the GDS program may be increased up to the 239,729,089 permitted under U.K. Listing Authority block listing, subject to obtaining permission therefor from the Russian Federal Service for the Financial Markets. The maximum aggregate number of GDSs may be further increased from time to time on application by us to the U.K. Listing Authority and the London Stock Exchange if and to the extent any such additional GDSs are admitted to the Official List and the Regulated Market and any necessary permission has been obtained from the Russian Federal Service for the Financial Markets. See “Risk Factors—Risks Relating to the Shares, the GDSs and the Trading Market—There are limits on the number of shares that can be deposited in the GDS program”.

Settlement Procedures—GDSs Payment for the GDSs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream. The Depositary has applied to DTC to have the Rule 144A GDSs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDSs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDSs evidenced by the corresponding Master GDS only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “Settlement and Delivery”.

Settlement Procedures—Shares Each purchaser of the Shares in the offering will be required to pay, in U.S. dollars or rubles, as the case may be, for the Shares within two days following delivery of such Shares to the purchaser, which is expected to take place between December 20, 2005 and December 26, 2005. In order to take delivery of the Shares, potential purchasers may be required to have a depo account at one or more depositaries designated by the Managers. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with our share registrar. See “Settlement and Delivery”.

Use of Proceeds We will not receive any of the proceeds from the sale of the Share or GDSs offered by the Selling Shareholder. See “Use of Proceeds”.

General Information It is expected that the Rule 144A GDSs will be accepted for clearance through the facilities of DTC and the Regulation S GDSs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the Shares and GDSs offered hereby are as follows:

Shares	ISIN: RU0009046452
Regulation S GDSs	CUSIP: 67011E 20 4 ISIN: US67011E2046 Common Code: 022035436 SEDOL: BORTNX3
Rule 144A GDSs	CUSIP: 67011E 10 5 ISIN: US67011E1055 Common Code: 022035363 SEDOL: BORT8M7
RTS Stock Exchange Share trading symbol:	NLMK
London Stock Exchange GDR trading symbol:	NLMK
PORTAL Rule 144A GDR listing symbol:	NVPSYPFP

Risk Factors Prospective investors should carefully consider certain risks discussed under “Risk Factors”.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the Shares and GDSs offered by the Selling Shareholder. All the net proceeds from the sale of the Shares and GDSs in the offering will be for the account of the Selling Shareholder. The offering is being conducted in order to allow the Selling Shareholder to dispose of a portion of its shareholding, while providing increased trading liquidity in our shares and raising our profile with the international investment community.

DIVIDEND POLICY

Our dividend policy, which was approved by our shareholders on June 25, 2004, targets dividend payments of 25% of our annual net income and provides for a minimum annual dividend payment of at least 15% of our annual net income, as determined in accordance with U.S. GAAP. The amount of any dividend payment for any particular period is subject to the recommendation of our Board of Directors and approval by our shareholders and will depend, among other things, on our financial position, results of operations, cash flows and future prospects, general business conditions and other factors that our Board of Directors deems relevant. We cannot assure you that we will meet our dividend policy objectives.

Under Russian law, dividends may be declared only out of net profits calculated in accordance with Russian accounting standards and as long as the following conditions have been met:

- our share capital has been paid in full;
- the value of our net assets, calculated in accordance with Russian accounting standards, is not less, and would not, as a result of the proposed dividend payment, become less, than the sum of our share capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase; and
- we are not, and would not become as the result of the proposed dividend payment, insolvent.

Dividends, if declared, are payable to our shareholders within 90 days of the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. Dividends not claimed within three years of the date of payment lapse and accrue to us. For a further description, please refer to "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Dividends".

We anticipate that any dividends we may pay in the future in respect of the Shares represented by the GDSs will be declared and paid to the Depositary in rubles and will be converted into U.S. dollars by the Depositary and distributed to holders of the GDSs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar.

The table below shows the dividends on our shares that we have declared during the periods indicated.

	Year ended December 31,			Nine months ended
	2002 ⁽¹⁾	2003	2004	September 30, 2005
	(Amounts in millions of U.S. dollars, except per share amounts in rubles)			
Dividend per share	—	RUR0.3 ⁽²⁾	RUR1.6	RUR1.8
Total amount of dividends	—	61.7	338.9	382.3

(1) No dividends were declared or paid in 2002.

(2) In May 2004, following the revaluation of fixed assets, NLMK effected an issue of 5,987,240,000 additional common shares with a par value of 1 ruble each. These shares were distributed to all existing shareholders of NLMK in proportion to their shareholding at the date of distribution such that each eligible shareholder received 1,000 additional shares for each share held. The dividend per share information for 2003 has been restated to reflect this share distribution. The average shares outstanding for the purposes of dividend per share information were 5,993,227,240 for each of 2003, 2004 and the nine month period ended September 30, 2005.

MARKET INFORMATION

The following table sets forth the high and low trading prices per common share for the periods indicated of our common shares on the RTS Stock Exchange since trading began on January 14, 2005.

<u>Period</u>	<u>High</u> <u>(in U.S. dollars)</u>	<u>Low</u>
Six months ended June 30, 2005 ⁽¹⁾	1.395	0.970
July 2005 ⁽¹⁾	1.141	1.045
August 2005	1.215	1.127
September 2005	1.350	1.140
October 2005	1.470	1.260
November 2005	1.610	1.410
December 2005 ⁽²⁾	1.510	1.445

(1) Period begins on January 14, 2005

(2) Through December 8, 2005

CAPITALIZATION

The following table sets forth our consolidated capitalization at September 30, 2005, on a historical basis. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” and our consolidated financial statements included elsewhere in this prospectus.

	As of September 30, 2005 (Unaudited)
	(Amounts in thousands of U.S. dollars, except per share amounts in U.S. dollars)
Cash and cash equivalents	<u>1,932,743</u>
Total debt⁽¹⁾	<u>19,863</u>
Stockholders’ equity	
Share capital (5,993,227,240 issued and outstanding, historical and as adjusted, each with a nominal value of 1 ruble)	221,173
Statutory reserve	10,267
Additional paid-in capital	32,143
Other comprehensive income	119,894
Retained earnings	<u>4,409,505</u>
Total stockholders’ equity	<u>4,792,982</u>
Total capitalization	<u>4,812,845</u>

- (1) Represents debt of our non-core subsidiaries comprising short-term debt of \$5.2 million and long-term debt of \$14.7 million.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The table below shows our historical consolidated financial information as of and for the years ended December 31, 2002, 2003 and 2004, as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005. The consolidated statement of income, cash flow and balance sheet data as of and for the years ended December 31, 2002, 2003 and 2004 has been derived from our annual consolidated financial statements included on pages F-2 to F-42 of this prospectus. Our annual consolidated financial statements as of and for the years ended December 31, 2002 and 2001 are also included in this prospectus (on pages F-43 to F-65) in accordance with the requirements of the Prospectus Directive. Our consolidated financial statements as of and for the years ended December 31, 2004, 2003 and 2002 contain certain reclassifications and additional disclosures relating to the financial information as of and for the year ended December 31, 2002 made after initial issuance of our financial statements for the year ended December 31, 2002 and the related audit report. A description of these reclassifications and additional disclosures made to the financial statements for the year ended December 31, 2002 is set forth in Note 27 to our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 included in this prospectus. This information as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005 has been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. In the opinion of our management, this interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period. Our financial statements consolidate Stoilensky GOK from April 1, 2004, following our acquisition of a controlling interest on March 31, 2004, and OJSC TMTP from July 1, 2004, following our acquisition of a controlling interest on June 30, 2004.

The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements, including the notes to those financial statements, included elsewhere in this prospectus.

Our consolidated financial statements have been prepared in accordance with U.S. GAAP since January 1, 1998. Although our results are presented in U.S. dollars, you should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all. The ruble generally is not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the ruble. See “Risk Factors — Risks Relating to Our Business and Industry — Russian currency control regulations may hinder our ability to conduct our business”.

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(Amounts in thousands of U.S. dollars)				
Consolidated statement of income data					
Sales revenue	1,711,657	2,468,022	4,538,686	3,215,222	3,387,729
Production cost	(950,058)	(1,293,330)	(1,888,702)	(1,360,036)	(1,548,077)
Depreciation and amortization	(146,327)	(157,809)	(243,656)	(173,824)	(210,556)
Cost of sales	(1,096,385)	(1,451,139)	(2,132,358)	(1,533,860)	(1,758,633)
Gross profit	615,272	1,016,883	2,406,328	1,681,362	1,629,096
General and administrative expenses	(37,655)	(69,524)	(92,517)	(46,429)	(111,960)
Selling expenses	(32,072)	(40,760)	(57,839)	(45,543)	(48,003)
Taxes other than income tax	(33,632)	(24,325)	(33,108)	(24,437)	(36,572)
Operating income	511,913	882,274	2,222,864	1,564,953	1,432,561
Loss on disposals of property, plant and equipment	(8,895)	(7,949)	(12,231)	(6,050)	(6,923)
(Loss)/gain on investments	(2,675)	12,136	165,174	141,159	(1,104)
Interest income	14,218	33,633	50,069	33,713	73,043
Interest expense	(3,386)	(7,344)	(12,296)	(9,484)	(10,741)
Foreign currency exchange loss, net	(18,247)	(42,999)	(39,101)	(5,233)	(18,970)
Other (expense)/income, net	(26,054)	11,983	(10,477)	(2,732)	(8,243)
Income before income tax and minority interest	466,874	881,734	2,364,002	1,716,326	1,459,623
Income tax	(129,699)	(223,035)	(572,221)	(405,665)	(394,783)
Income before minority interest	337,175	658,699	1,791,781	1,310,661	1,064,840
Equity in net earnings of associates	—	—	—	—	3,601
Minority interest	1,243	(2,243)	(19,280)	(16,053)	(22,653)
Net income	338,418	656,456	1,772,501	1,294,608	1,045,788

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(Amounts in thousands of U.S. dollars, except per share amounts in U.S. dollars)				
Earnings per share, basic and diluted⁽¹⁾					
Income from continuing operations	0.0565	0.1095	0.2958	0.2160	0.1745
Net income	0.0565	0.1095	0.2958	0.2160	0.1745

Consolidated cash flow data

Net cash provided by operating activities	497,414	668,311	1,669,343	936,987	1,182,291
Net cash used in investing activities	(221,799)	(409,131)	(98,313)	(318,730)	(391,058)
Net cash provided by/(used in) financing activities	(81,187)	41,124	(1,025,697)	(662,127)	(163,821)

	As of December 31,			As of September 30,	
	2002	2003	2004	2005	
				(Unaudited)	
	(Amounts in thousands of U.S. dollars)				

Consolidated balance sheet data

Cash and cash equivalents	382,957	729,641	1,348,615	1,932,743
Total assets	2,198,986	3,085,265	5,165,921	5,966,642
Total debt (long-term and short-term)	6,334	4,541	9,108	19,863
Total liabilities	194,917	458,705	859,643	1,087,243
Total stockholders' equity	1,991,178	2,609,908	4,220,491	4,792,982

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(Amounts in thousands of U.S. dollars, except margins)				

Non-U.S. GAAP Measures:

EBITDA ⁽²⁾	612,507	1,018,960	2,562,836	1,855,918	1,627,211
EBITDA margin ⁽³⁾	35.8	41.3	56.5	57.7	48.0
Gross profit margin ⁽³⁾	35.9	41.2	53.0	52.3	48.1
Operating income margin ⁽³⁾	29.9	35.7	49.0	48.7	42.3
Net income margin ⁽³⁾	19.8	26.6	39.1	40.3	30.9

(1) In May 2004, following a revaluation of fixed assets, NLMK issued 5,987,240,000 additional common shares with a par value of 1 ruble each. Prior to this issue, NLMK's share capital comprised 5,987,240 common shares. These additional common shares were distributed to all existing shareholders of NLMK in proportion to their shareholding at the date of distribution such that each eligible shareholder received 1,000 additional shares for each share held. Earnings per share information for 2002, 2003 and 2004 has been restated to reflect this share distribution. The average shares outstanding for the purposes of basic and diluted earnings per share information were 5,991,642,657 for 2002 and 5,993,227,240 for each of 2003 and 2004 and for each of the nine month periods ended September 30, 2004 and September 30, 2005.

(2) EBITDA represents net income, including non-recurring items, before net interest expense, income taxes, loss on disposal of property, plant and equipment, depreciation and amortization and stock-based compensation expense. Stock-based compensation expense was \$31.5 million for the nine months ended September 30, 2005 and nil for the nine months ended September 30, 2004, and the years ended December 31, 2004, 2003 and 2002. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if we incur more debt, on our operating performance.
- EBITDA does not reflect the impact of income taxes on our operating performance.

- EBITDA does not reflect the impact of depreciation and amortization on our operating performance. The assets of our businesses which are being depreciated, depleted and/or amortized will have to be replaced in the future and such depreciation and amortization expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect our future cash requirements for these replacements. EBITDA also does not reflect the impact of loss on disposal of property, plant and equipment.
- Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using EBITDA only supplementally. See our consolidated statements of income and consolidated statements of cash flows included elsewhere in this prospectus.

EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, U.S. GAAP. EBITDA is not a measurement of our operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

- (3) Margins are calculated as a percentage of sales revenue.

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

The following is a discussion of our financial condition and results of operations as of and for the years ended December 31, 2002, 2003 and 2004, as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005 and of the material factors that we believe are likely to affect our financial condition and results of operations. The information as of and for the years ended December 31, 2002, 2003 and 2004 has been derived from our annual consolidated financial statements included on pages F-2 to F-42 of this prospectus. Our financial statements as of and for the years ended December 31, 2002 and 2001 are also included in this prospectus (on pages F-43 to F-65) in accordance with the requirements of the Prospectus Directive. Our consolidated financial statements as of and for the years ended December 31, 2004, 2003 and 2002 contain certain reclassifications and additional disclosures relating to the financial information as of and for the year ended December 31, 2002 made after initial issuance of our financial statements for the year ended December 31, 2002 and the related audit report. A description of these reclassifications and additional disclosures made to the financial statements for the year ended December 31, 2002 is set forth in Note 27 to our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 included in this prospectus. The information as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005 has been derived from our unaudited interim condensed consolidated financial statements included on pages I-4 to I-17 in this prospectus. Our financial statements consolidate Stoilensky GOK from April 1, 2004, following our acquisition of a controlling interest on March 31, 2004, and OJSC TMTP from July 1, 2004, following our acquisition of a controlling interest on June 30, 2004. You should read this section together with our consolidated financial statements, including the notes to those financial statements, which are included elsewhere in this prospectus.

Our consolidated financial statements have been prepared in accordance with U.S. GAAP since January 1, 1998. Although our results are presented in U.S. dollars, you should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all. The ruble generally is not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the ruble. See "Risk Factors — Risks Relating to Our Business and Industry — Russian currency control regulations may hinder our ability to conduct our business".

Overview

We are one of the world's leading steel producers and one of the four largest steel producers in Russia. We produced 9.1 million tonnes of crude steel in 2004 (6.2 million tonnes in the first nine months of 2005). In 2004, we generated 64% of our sales revenue from export markets (58% in the first nine months of 2005). We believe that our production facilities are among the most technologically advanced in Russia, producing flat products in a variety of grades and sizes. We also have significant mining operations, which have enabled us to become increasingly self-sufficient in our raw materials needs. In 2004, we had sales revenue of \$4,538.7 million, operating income of \$2,222.9 million, EBITDA of \$2,562.8 million and EBITDA margin of 56.5%, and in the nine months ended September 30, 2005, we had sales revenue of \$3,387.7 million, operating income of \$1,432.5 million, EBITDA of \$1,627.2 million and EBITDA margin of 48.0%.

We have organized our business into two major business segments, the steel segment and the mining segment. Our steel segment largely comprises steel operations owned directly by NLMK, while our mining segment comprises non-wholly owned subsidiaries that sell their production principally to our steel segment and, to a lesser extent, to external customers.

Our principal business segment is the steel segment, which generated sales revenue from external customers, which we define as revenues from customers other than our other operating segments or businesses, of \$4,399.6 million in 2004. In the nine months ended September 30, 2005, our steel segment generated sales revenue from external customers of \$3,160.1 million. Our steel segment produces and sells pig iron and semi-finished and finished steel flat products, primarily slabs, hot- and cold-rolled steel, coated sheet and electrical steel.

Our mining segment mines and processes iron ore concentrate, fluxing limestone and metallurgical dolomite, principally for use in our steel business and sells raw materials to third parties. In 2004 and in the nine months ended September 30, 2005, the principal subsidiaries in our mining segment were Stoilensky GOK, OJSC Stagdok and OJSC Dolomite, each of which were non-wholly owned subsidiaries during that period. In 2004, we also held a controlling interest in KMA Ruda, which was reduced in 2005 as part of our restructuring of that entity. In 2004, our mining segment generated sales revenue from external customers of \$75.0 million (\$98.6 million in the nine months ended September 30, 2005).

Sales revenue from sources other than our two business segments are primarily derived from our seaport services business, through our controlling interest in OJSC TMTP, the principal operator of the Black Sea port of Tuapse, and its subsidiaries; and our finance business, which, through our subsidiaries, provides banking and

insurance services to us and to other commercial and retail customers. In 2004, these businesses generated sales revenue from external customers of \$64.1 million (\$129.0 million in the nine months ended September 30, 2005).

The following table shows sales revenue from external customers for each of our segments for the periods indicated.

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(in millions of U.S. dollars)				
Sales revenue from external customers⁽¹⁾					
Steel	1,692.6	2,450.2	4,399.6	3,143.6	3,160.1
Mining	19.1	17.2	75.0	49.6	98.6
All other	—	0.6	64.1	22.0	129.0
Total revenue from external customers	1,711.7	2,468.0	4,538.7	3,215.2	3,387.7

(1) Represents revenues from all our sales other than intersegmental sales to our other operating segments or businesses.

Intersegmental Sales and Vertical Integration

Consistent with our strategy to achieve a greater measure of vertical integration and control over our supplies of raw materials, a substantial portion of the sales of our mining segment are made to our steel segment. The following table shows for the periods indicated our sales revenue, gross profit, operating income and assets for our principal segments on a standalone basis, before giving effect to eliminations on consolidation, as well as any consolidation adjustments. For the purpose of our financial statements, we refer to these consolidation adjustments as “intersegmental operations”.

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(in millions of U.S. dollars)				
Sales revenue					
Steel	1,699.2	2,451.2	4,403.0	3,146.6	3,163.4
Mining	32.0	40.3	412.3	256.0	467.2
All other	—	0.6	64.3	22.1	131.3
Intersegmental operations ⁽¹⁾	(19.5)	(24.1)	(340.9)	(209.5)	(374.2)
Total sales revenue	1,711.7	2,468.0	4,538.7	3,215.2	3,387.7
Gross profit/(loss)					
Steel	605.9	1,004.0	2,182.3	1,555.9	1,310.3
Mining	3.7	5.0	207.8	116.2	261.3
All other	(0.3)	(0.1)	20.9	8.2	42.2
Intersegmental operations ⁽¹⁾	6.0	8.0	(4.7)	1.1	15.3
Total gross profit	615.3	1,016.9	2,406.3	1,681.4	1,629.1
Operating income					
Steel	509.2	884.2	2,037.3	1,459.4	1,154.0
Mining	0.3	2.6	186.1	105.4	240.5
All other	(0.5)	(0.3)	18.1	8.2	31.0
Intersegmental operation ⁽¹⁾	2.9	(4.2)	(18.7)	(8.0)	7.0
Total operating income	511.9	882.3	2,222.9	1,565.0	1,432.5
Assets					
Steel	2,175.5	3,022.4	3,767.2	N/A	4,399.7
Mining	17.6	19.4	984.5	N/A	1,074.7
All other	86.4	125.4	654.1	N/A	695.2
Intersegmental balances ⁽¹⁾	(80.5)	(82.0)	(239.9)	N/A	(203.0)
Total assets	2,199.0	3,085.2	5,165.9	N/A	5,966.6

(1) Represent consolidation adjustments eliminating intersegmental operations and balances.

The amount of sales revenue generated by our mining segment has increased significantly over the 2002 to 2004 period, from \$32.0 million in 2002 to \$412.3 million in 2004. However, because a substantial portion of our mining segment sales revenue was generated through sales to our steel segment — \$337.3 million, or 81.8% of

our mining segment revenue in 2004 — profit derived from such sales has been offset by increased costs (and lower margins) in our steel segment on a standalone basis. All intersegmental transactions and balances are eliminated in consolidation.

The prices for the sale and purchase of goods and services between our operating segments are determined by reference to market prices, but are not the result of an arm's length negotiation.

Non-U.S. GAAP Financial Measures

Set forth below are various non-U.S. GAAP financial measures relating to our business and financial results. These non-U.S. GAAP financial measures are not prepared in accordance with U.S. GAAP and may be different from non-U.S. GAAP financial measures used by other companies. We refer to these non-U.S. GAAP financial measures because we believe they provide meaningful supplemental information regarding our operational performance. Investors are encouraged not to put undue weight on these non-U.S. GAAP financial measures and to review their most directly comparable U.S. GAAP financial measures as provided in the financial statements included in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
				(Unaudited)	(Unaudited)
	(% , except EBITDA (in millions of U.S. dollars))				
Non-U.S. GAAP Measures					
EBITDA ⁽¹⁾	612.5	1,019.0	2,562.8	1,855.9	1,627.2
EBITDA margin ⁽²⁾	35.8	41.3	56.5	57.7	48.0
Gross profit margin ⁽²⁾	35.9	41.2	53.0	52.3	48.1
Operating income margin ⁽²⁾	29.9	35.7	49.0	48.7	42.3
Net income margin ⁽²⁾	19.8	26.6	39.1	40.3	30.9

- (1) EBITDA represents net income, including non-recurring items, before net interest expense, income taxes, loss on disposal of property, plant and equipment, depreciation and amortization and stock-based compensation expense. Stock-based compensation expense was \$31.5 million for the nine months ended September 30, 2005 and nil for the nine months ended September 30, 2004, and the years ended December 31, 2004, 2003 and 2002. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- EBITDA does not reflect the impact of financing costs, which can be significant and could further increase if we incur more debt on our operating performance.
- EBITDA does not reflect the impact of income taxes on our operating performance.
- EBITDA does not reflect the impact of depreciation and amortization on our operating performance. The assets of our businesses which are being depreciated and/or amortized will have to be replaced in the future and such depreciation and amortization expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect our future cash requirements for these replacements. EBITDA also does not reflect the impact of a loss on disposal of property, plant and equipment.
- Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using EBITDA only supplementally. See our consolidated statements of income and consolidated statements of cash flows included elsewhere in this prospectus.

EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, U.S. GAAP. EBITDA is not a measurement of our operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

- (2) Margins are calculated as a percentage of sales revenue.

External Factors Affecting Our Results of Operations

Our results of operations are affected by a number of external factors, including the demand and price for steel products in the markets in which we operate, Russian macroeconomic trends, production costs (in particular, raw materials and energy costs), currency exchange fluctuations and the imposition of protective trade measures in our main export markets. See the discussion of our results of operations for the years ended December 31, 2002, 2003 and 2004 and the nine months ended September 30, 2004 and 2005 for a description of the extent to which those external factors have affected our results of operations.

Demand and price for steel in the markets in which we operate

The prices of our products are affected to a significant extent by fluctuations in the prices of steel products in the international metal trading markets. Steel prices rose in 2002, 2003 and 2004 as a result of increased global demand for steel and steel producers' greater degree of control over production capacity following the consolidation of steel producers in Western Europe and bankruptcy-related closures in North America, which, together, resulted in producers being able to exert a greater degree of control over total production levels. Following the increases of 2004, steel prices stabilized in the first quarter of 2005 prior to decreasing significantly in the second and third quarters of 2005. Steel producers, including NLMK, have generally responded to these negative price trends by reducing capacity. Steel prices have been relatively stable since the end of the third quarter of 2005.

We believe that the movement of prices in the near term will depend on a number of factors, including, primarily, the sustainability of Asian demand in the face of the Chinese government's attempts to moderate levels of growth in China through the introduction of macroeconomic measures, the rate of increase of Chinese steel production capacity, including production capacity of finished products, and the extent and pace of economic growth in Europe and the United States. We currently expect that steel prices may increase slightly in the remainder of 2005 and the start of 2006, although we expect prices overall to remain below the levels they achieved by the end of 2004. See "— Seasonality and Cyclicity" below.

Russian macroeconomic trends

Most of our operations are based in Russia and we generate a significant proportion of our sales in Russia, with 36% and 42%, respectively, of our total sales revenue being generated from Russia in 2004 and in the nine months ended September 30, 2005. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which we operate, significantly influence our performance. The table below summarizes certain key macroeconomic indicators relating to the Russian economy in 2002, 2003 and 2004 and the first nine months of 2005.

	Year ended December 31,			Nine months ended
	2002	2003	2004	September 30, 2005
GDP growth	4.7%	7.3%	7.1%	5.7%
Consumer price index	15.1%	12.0%	11.7%	8.6%
Unemployment rate	8.1%	8.6%	8.2%	6.8%

Source: Central Bank of Russia

In recent years, Russia has been able to overcome the consequences of the 1998 financial crisis. GDP growth rates in Russia since 2002 have remained relatively high compared to North America and Europe. The Russian economy since 2002 has benefited from the high proportion of oil and oil products in its export revenues and high oil prices on the international markets. The growth of Russia's economy during this period has resulted in greater domestic consumption of steel and has also resulted in increases in the costs of raw materials and energy due to greater demand.

In 2004, domestic consumption of steel products rose 6.6% year-on-year. We expect domestic consumption to continue to grow approximately in line with the growth rate of Russian GDP, with auto manufacturing, engineering, construction, consumer appliances and metalware being the main drivers of domestic demand. The construction industry, in particular, is one of the most dynamically developing sectors in Russia, with an annual growth rate of approximately 10% in 2004 and the first nine months of 2005.

Costs

We require substantial amounts of raw materials in the steel production process, in particular iron ore, coal and scrap. Prices for almost all raw materials that we use increased steadily during 2002 and 2003 and sharply in 2004. Prices for these raw materials, other than scrap, have been falling since the second quarter of 2005, and we currently expect this trend to continue for the remainder of 2005. In furtherance of our vertical integration strategy, we have invested in iron ore mining and processing companies primarily to secure a supply of iron ore concentrate at competitive market rates and, to a significant extent, to largely insulate us, on a consolidated basis, from the impact of increases in prices of iron ore. More recently, we obtained a license for the exploration and development of the Zhernovskoe-1 coal deposit in Siberia in order to provide us with access to another one of our key raw materials. See “— Acquisitions and Disposals”. However, we continue to rely on external suppliers for a number of our key raw materials.

We also consume large volumes of electricity and natural gas, which are largely supplied to us by monopoly providers in Russia. In the first nine months of 2005, our integrated electricity generation facilities supplied approximately 35% of the electricity requirements of our steel segment, with the remainder being purchased from local subsidiaries of RAO UES. In 2004, natural gas tariffs increased by 21.5% and electricity tariffs increased by 13.0% (in each case as compared to the average price we paid in 2003) and, in the first nine months of 2005, natural gas tariffs increased by 17.3% and electricity tariffs increased by 8.0% (in each case as compared to the average price we paid in the first nine months of 2004). These rates of increase may be higher than the rates at which we are able to increase our steel prices. In addition, railway transport is also under government ownership in Russia, and, while we have begun to acquire railway rolling stock, we are dependent on the state-owned railways for delivery of both our raw materials to us and our products to our customers. The Russian monopoly providers regularly increase prices for their services at a rate that may be higher than the rate at which we are able to increase the price of our steel products. In 2004, railway tariffs for freight of our raw materials and products increased by approximately 11% (as compared to equivalent tariffs in 2004), and, in the first nine months of 2005, increased by approximately 18% (as compared to equivalent tariffs in the first nine months of 2004).

We have instituted a cost-saving program aimed at reducing production and purchase costs, including the optimization of production processes. As a result of the measures we have undertaken under this program, raw material conversion rates for our main production assets have improved and defective or low-grade production has decreased. The cost-saving program also includes the introduction of tender systems for virtually all purchases, the consolidation of purchases to obtain bulk discounts and the use of more cost-effective suppliers or substitutes.

Currency exchange fluctuations

Our export sales generate foreign currency earnings. As we export a significant part of our production, for which we are paid in dollars and euros, we are exposed to currency exchange rate fluctuations. See “— Quantitative and Qualitative Disclosures about Market Risk — Foreign currency exchange rate risk” below and “Risk Factors — Risks Relating to Our Business and Industry — Inflation, or appreciation in real terms of the ruble against the U.S. dollar or the euro, may materially adversely affect our results of operations”.

The table below shows the nominal exchange rate and real ruble appreciation against the U.S. dollar in terms of percentage in 2002 and 2003, and against both the U.S. dollar and the euro in 2004 and in the first nine months of 2005.

	Year ended December 31,			Nine months ended September 30, 2005
	2002	2003	2004	
Nominal exchange rate (rubles per U.S. dollar) ⁽¹⁾	31.35	30.69	28.82	28.15
Real ruble appreciation against U.S. dollar ⁽²⁾	6.0%	13.6%	15.1%	12.3%
Nominal exchange rate (rubles per euro) ⁽¹⁾	N/A	N/A	35.81	35.62
Real ruble appreciation against euro ⁽²⁾	N/A	N/A	5.6%	10.3%

Sources: Central Bank of Russia.

- (1) The weighted average of the exchange rates on each day of each full month during the relevant period. The weighted average for the nine months ended September 30, 2005 is based on our calculation of the average of the rates quoted.
- (2) Real ruble appreciation against the U.S. dollar or the euro, as the case may be, is consumer price index adjusted for nominal exchange rate changes over the same period. The nominal exchange rates and rates of real appreciation of the ruble against the euro for 2002 and 2003 are not available.

Protective trade restrictions

Our export sales are affected by the introduction, retention or variation to protective trade measures in our major export markets. A significant portion of our sales revenue was derived from sales of steel products that are subject to import restrictions. See “Regulatory Matters — Trade Barriers and Anti-Dumping Regulations”.

Acquisitions and Disposals

An important part of our business strategy is the acquisition of businesses that we believe will help us to achieve vertical integration and otherwise serve our growth objectives. We believe the continuing vertical integration of our business will help us to control better our access to raw materials and energy sources and to lower our overall unit production costs, as well as capture some of the profits from higher raw material prices that may have otherwise been retained by third-party suppliers.

Our most significant acquisitions during the past three years were designed to secure our access to important raw material sources and transportation links. In March 2004, we acquired a 59.8% interest in Stoilensky GOK, the third largest iron ore producer in Russia and we subsequently acquired additional interests in 2004 to increase our total stake to 96.98% for a total consideration of \$659.3 million. Stoilensky GOK supplied approximately 90% of our requirements in iron ore concentrate in the first nine months of 2005. See “— Liquidity and Capital Resources — Capital requirements — Recent acquisitions”, “Business — Raw Materials and Energy” and “Transactions with Related Parties”.

As of September 30, 2005, we held a 32.9% stake in KMA Ruda, which supplies a portion of our iron ore requirements. In 2004, we also acquired additional stakes in the mining companies, OJSC Stagdok and OJSC Dolomite, which supply us with all our requirements for limestone and metallurgical dolomite, respectively, and, at September 30, 2005, we held stakes in those companies of 88.6% and 92.7%, respectively. See “Transactions with Related Parties”.

In August 2005, we acquired at auction for \$38.4 million a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. Based on our current estimates, we expect the Zhernovskoe-1 deposit to be operational in 2008 and to provide approximately 50% of our annual coking coal requirements from 2009. See “— Liquidity and Capital Resources — Cash Flows — Investing Activities” and “Business — Raw Materials and Energy”.

In 2004, we acquired for \$189 million a 69.4% controlling interest in OJSC TMTP, the principal operator of the Black Sea port of Tuapse, Russia’s fifth largest seaport. Substantially all of our products that are sold to customers in South-East Asia and the Middle East are exported from Black Sea ports, principally Novorossiysk and Tuapse, from where, according to information received from the international wholesale traders to whom we sold our products, 46% and 14%, respectively, of the total volume of our exported products were transported in 2004. We expect that the volume of exports of our products transported from Tuapse will increase, in preference to the other Black Sea ports, and, in the first nine months of 2005, 1.1 million tonnes of our steel products were exported from Tuapse, compared to 1.6 million tonnes from Novorossiysk. We also acquired, in 2004, a 60% controlling interest in the transportation services company, LLC NTK, increasing our total stake in that company to 70%. LLC NTK assists us with the supply of our raw materials and the delivery of our products. See “— Liquidity and Capital Resources — Cash Flows — Investing Activities” and “Business — Sales and Transportation of Products”.

We are currently in talks to acquire more than 90% of the shares of a Russian coke producer. As part of this transaction we may also acquire a number of coal producing companies. We are currently conducting due diligence on these companies and may sign a letter of intent at some point in the near future. If completed, this acquisition would have a significant impact on our mining business and would allow us to produce a significantly greater amount of our coke production internally. We are currently in talks to acquire another Russian steel producer specializing in high value-added types of steel. We are currently conducting due diligence on this company and may soon enter into negotiations to agree share purchase documentation. If completed, this acquisition may have a significant impact on our market share in certain types of steel. We are also considering whether to acquire the Danish steel producer, Dan Steel, which is controlled by our controlling shareholder. No assurance can be made that these acquisitions will be completed or regarding the terms on which they would be completed. We plan to continue to consider acquisitions of other businesses and assets, including steel producers and suppliers of raw materials, in accordance with our development strategy.

We consolidate revenues and expenses of newly acquired entities from the date on which we obtain a controlling interest. Earnings attributable to minority interests in these entities for the portion of the year prior to the date upon which we obtained a controlling interest are included in minority interests.

We also dispose of businesses and investments that are not part of our core business, are unprofitable or otherwise do not conform with our overall business strategy. In 2003, these disposals included the sale of our 17.7% stake in the shares of OJSC Kuzbassugol, a coal mining company, to Immenso Enterprises Limited, which subsequently resold that stake to an unrelated third party. See “Transactions with Related Parties”. Although coal is an important raw material for our steel business, we sold these shares in OJSC Kuzbassugol because we were unable to reach an agreement with the majority shareholders of that company on the method of operating and developing that company.

We are also negotiating to dispose of our 12% stake in Lebedinsky GOK, a producer of iron ore concentrate, as well as an acquisition of a further stake in KMA Ruda. We may make an announcement with respect to these possible transactions in the near future.

Seasonality and Cyclicality

Seasonal effects have a relatively limited impact on our results. Nonetheless, while the prices of most of our 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. Consumption of combustible, lubricative and energy supplies during the winter months is generally higher than during the rest of the year. In addition, our costs of transporting, unloading and storing raw materials in the winter months are higher. There is also usually a lower demand for coated products in the winter period.

Traditionally, the global market for semi-finished and finished steel products has been subject to cyclical variations. By the start of 2003, the duration of the average cycle (rise-fall-rise) ranged from 2 to 3.5 years. The decline in prices is usually linked to overproduction, resulting in supply exceeding demand. From the beginning of 2003 until the end of 2004, global steel prices increased as a result of the shortage of rolled steel on the world market. However, as a result of initiatives undertaken by the Chinese government to tighten credit policies and the increase in domestic steel production in China, Chinese demand for certain types of imported steel products declined in 2005, reducing prices for some types of steel products in the Chinese and other Asian markets, particularly in the second and third quarters of 2005. Steel prices in Europe also declined in the first nine months of 2005, as compared to 2004 levels, although the rate of decrease was lower than in Asia. As a result of supply and demand trends in the United States, average steel prices in North America remained relatively high in the first nine months of 2005, as compared with prices in Asia and Europe. Global steel prices have been more stable since September 2005, and we currently expect that prices may increase slightly by the end of 2005, but remain below the levels achieved by the end of 2004. See “— External Factors Affecting Our Results of Operations — Demand and price for steel in the markets in which we operate”.

Inflation

Inflation in the Russian Federation was 15.1% in 2002, 12.0% in 2003, 11.7% in 2004 and 8.6% in the nine months ended September 30, 2005. Russian inflation has generally not had a material impact on our results of operations in recent years, primarily because the prices of our products and the raw materials which we use are mainly determined by global trends. In addition, the cost of energy is set according to a tariff rate determined by the government of the Russian Federation and, therefore, is only indirectly linked to inflation. While some of our costs, in particular employee salaries, are affected by inflation, they have not historically represented a substantial percentage of our production costs.

For periods prior to January 1, 2003, the Russian economy was considered hyper-inflationary for financial reporting purposes. During those periods, monetary assets and liabilities denominated in U.S. dollars were stated at their original value. Monetary assets and liabilities denominated in currencies other than the U.S. dollar were translated at period end exchange rates and non-monetary assets and liabilities were translated into U.S. dollars at the exchange rates in effect as of the date of the transaction. All financial statement amounts for periods prior to January 1, 2003 are stated at nominal values.

Taxation

We are subject to a variety of taxes levied in the Russian Federation, including income taxes, payroll taxes, VAT, property taxes and other taxes. We have been registered as a “major taxpayer” in the Russian Federation since May 2005, and, as a result, our compliance with Russian tax regulations is monitored by the department for major taxpayers of the Russian tax authorities.

The taxation system in Russia is subject to frequent changes, varying interpretations and inconsistent enforcement at the federal, regional and local levels. In some instances, new tax regulations have been given retroactive effect, while under the Tax Code only laws benefiting the taxpayer may have retroactive effect. In addition to our substantial tax burden, these conditions complicate our tax planning and related business

decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses and, at times, we have taken a position that may be challenged by tax authorities, but that we consider to be in compliance with current law. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems. See “Risk Factors — Risks relating to the Russian Federation — Legal Risks and Uncertainties — Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor tax payers, and we may therefore be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations”.

We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that the authorities could take a different position.

Income taxes

Effective January 1, 2002, the income tax rate in Russia declined to 24% for all companies and the tax loss carry-forward period was extended to ten years. The maximum amount of tax loss carry-forward that may be claimed for reduction of annual taxable profit, currently limited to 30% of annual taxable profits, will be increased to 50% of annual taxable profits with effect from January 1, 2006 and, with effect from January 1, 2007, will no longer be subject to limitation. Income tax on dividends distributed within Russia is currently 9%. The new income tax legislation also adopted a more liberal approach to tax-deductible expenses, permitting deductions so long as expenses are economically proven and justified from a business standpoint and properly documented. The elimination of investment tax credits offset some of the benefits from the reduction of income tax rates.

Value-added tax

During the years ended December 31, 2002 and 2003, the VAT rate in Russia was 20%. It decreased to 18% with effect from January 1, 2004.

Consolidated Financial Results Overview

The following table sets forth a summary of our consolidated financial results for the years ended December 31, 2002, 2003 and 2004 and for the nine months ended September 30, 2004 and 2005. Our financial statements consolidate Stoilensky GOK from April 1, 2004, following our acquisition of a controlling interest on March 31, 2004, and OJSC TMTP from July 1, 2004, following our acquisition of a controlling interest on June 30, 2004.

	Year ended December 31,						Nine months ended September 30, (Unaudited)			
	2002	% of revenues	2003	% of revenues	2004	% of revenues	2004	% of revenues	2005	% of revenues
(Amounts in millions of U.S. dollars, except percentages)										
Sales revenue	1,711.7	100.0	2,468.0	100.0	4,538.7	100.0	3,215.2	100.0	3,387.7	100.0
Production cost	(950.1)	(55.5)	(1,293.3)	(52.4)	(1,888.7)	(41.6)	(1,360.0)	(42.3)	(1,548.1)	(45.7)
Depreciation and amortization	(146.3)	(8.6)	(157.8)	(6.4)	(243.7)	(5.4)	(173.8)	(5.4)	(210.5)	(6.2)
Cost of sales	(1,096.4)	(64.1)	(1,451.1)	(58.8)	(2,132.4)	(47.0)	(1,533.8)	(47.7)	(1,758.6)	(51.9)
Gross profit	615.3	35.9	1,016.9	41.2	2,406.3	53.0	1,681.4	52.3	1,629.1	48.1
General and administrative expenses	(37.7)	(2.2)	(69.5)	(2.8)	(92.5)	(2.0)	(46.4)	(1.4)	(112.0)	(3.3)
Selling expenses	(32.1)	(1.9)	(40.8)	(1.7)	(57.8)	(1.3)	(45.6)	(1.4)	(48.0)	(1.4)
Taxes other than income tax	(33.6)	(1.9)	(24.3)	(1.0)	(33.1)	(0.7)	(24.4)	(0.8)	(36.6)	(1.1)
Selling, general and administrative expenses	(103.4)	(6.0)	(134.6)	(5.5)	(183.4)	(4.0)	(116.4)	(3.6)	(196.6)	(5.8)
Operating income	511.9	29.9	882.3	35.7	2,222.9	49.0	1,565.0	48.7	1,432.5	42.3
Loss on disposals of property, plant and equipment	(8.9)	(0.5)	(8.0)	(0.3)	(12.2)	(0.3)	(6.1)	(0.2)	(6.9)	(0.2)
Gain/(loss) on investments	(2.7)	(0.1)	12.1	0.5	165.2	3.7	141.1	4.4	(1.1)	(0.0)
Interest income	14.2	0.8	33.6	1.4	50.0	1.1	33.7	1.0	73.0	2.2
Interest expense	(3.4)	(0.2)	(7.3)	(0.4)	(12.3)	(0.3)	(9.5)	(0.3)	(10.7)	(0.3)
Foreign currency exchange loss, net	(18.2)	(1.1)	(43.0)	(1.7)	(39.1)	(0.9)	(5.2)	(0.2)	(19.0)	(0.6)
Other income/(expense), net	(26.0)	(1.5)	12.0	0.5	(10.5)	(0.2)	(2.7)	(0.1)	(8.2)	(0.2)
Income before income tax and minority interest ...	466.9	27.3	881.7	35.7	2,364.0	52.1	1,716.3	53.4	1,459.6	43.2
Income tax	(129.7)	(7.6)	(223.0)	(9.0)	(572.2)	(12.6)	(405.6)	(12.6)	(394.8)	(11.7)
Income before minority interest	337.2	19.7	658.7	26.7	1,791.8	39.5	1,310.7	40.8	1,064.8	31.5
Equity in net earnings of associates	—	—	—	—	—	—	—	—	3.6	0.1
Minority interest	1.2	0.1	(2.2)	(0.1)	(19.3)	(0.4)	(16.1)	(0.5)	(22.6)	(0.7)
Net income	338.4	19.8	656.5	26.6	1,772.5	39.1	1,294.6	40.3	1,045.8	30.9

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Sales revenue

Sales revenue comprises sales of our steel products and sales of production of our mining segment to external customers, as well as revenue from services provided by our port, transportation and finance businesses to external customers on a consolidated basis. Revenue from the sale of goods are recognized when there is a firm arrangement, the price is fixed and determinable, delivery has occurred and collectibility is reasonably assured.

Total sales revenue increased by \$172.5 million, or 5.4%, to \$3,387.7 million in the nine months ended September 30, 2005 from \$3,215.2 million in the nine months ended September 30, 2004.

Sales revenue of our steel segment on a consolidated basis grew slightly by 0.5% to \$3,160.1 million in the nine months ended September 30, 2005 from \$3,143.6 million in the nine months ended September 30, 2004, representing 93.3% of our consolidated sales revenue in the first nine months of 2005, compared to 97.8% in the corresponding period of 2004.

Our mining segment's sales revenues increased on a consolidated basis by 98.8%, to \$98.6 million in the nine months ended September 30, 2005 from \$49.6 million for the nine months ended September 30, 2004, representing 2.9% of our consolidated sales revenue in the first nine months of 2005, compared to 1.5% in the corresponding period of 2004. Our mining segment achieved an ever greater increase in sales revenues on a standalone basis. See "—Mining segment" below.

Sales revenue of our other operations on a consolidated basis increased by \$107.0 to \$129.0 million in the nine months ended September 30, 2005 from \$22.0 million in the nine months ended September 30, 2004, representing 3.8% of our consolidated sales revenue in the first nine months of 2005, compared to 0.7% in the corresponding period of 2004. The increase was primarily attributable to the consolidation for the first nine months of 2005 of our non-wholly owned subsidiary port operator, OJSC TMTP, which was consolidated with effect from July 1, 2004 (and therefore was only consolidated for the last three months of the nine month period ended September 30, 2004, compared to the entire nine month period ended September 30, 2005) and of our subsidiary electricity supply company that we established in the second half of 2004 as part of our social commitments in Lipetsk.

Steel segment

Sales revenue of our steel segment on a consolidated basis increased slightly by \$16.5 million to \$3,160.1 million in the nine months ended September 30, 2005 from \$3,143.6 million in the nine months ended September 30, 2004, representing 93.3% of our consolidated sales revenue in the first nine months of 2005, compared to 97.8% in the corresponding period of 2004. Substantially all of our steel segment sales were to external customers outside of the NLMK group.

The slight increase in steel segment sales revenue in the nine months ended September 30, 2005 was attributable to overall higher averaged realized selling prices, to which we refer in our discussion of our sales revenue as prices, across our product line compared with the first nine months of 2004. These higher prices were partially offset by a decrease in our production volumes during the first nine months of 2005. Our decrease in production in that period was largely attributable to the closure of one of our blast furnaces from May until August 2005. We closed this furnace for scheduled maintenance for an initial period of two months and then decided to delay re-commissioning for a further 45 days in order to maintain a reduced level of production in response to the downward trend in global steel prices. We believe our decision was consistent with actions taken by other international steel producers in that period to reduce production in response to the decline in steel prices.

The following table shows a breakdown of our steel segment revenue from external customers, on a consolidated basis after intersegmental eliminations, by our main products for the periods indicated.

	Nine months ended September 30,					
	2004		2005		Change	
	Amount of revenues	% of steel segment revenues	Amount of revenues	% of steel segment revenues	Amount of revenues	(%)
	(Unaudited)		(Unaudited)			
(Amounts in millions of U.S. dollars, except percentages)						
Pig iron	174.1	5.5	64.3	2.0	(109.8)	(63.1)
Slabs	969.7	30.8	804.8	25.5	(164.9)	(17.0)
Hot-rolled steel	668.4	21.3	765.3	24.2	96.9	14.5
Cold-rolled steel	670.1	21.3	691.8	21.9	21.7	3.2
Galvanized steel	130.8	4.2	134.8	4.3	4.0	3.1
Pre-painted steel	135.2	4.3	165.2	5.2	30.0	22.2
Grain oriented steel	81.1	2.6	200.5	6.4	119.4	147.2
Non-grain oriented steel	154.9	4.9	174.9	5.5	20.0	12.9
Other operations ⁽¹⁾	159.3	5.1	158.5	5.0	(0.8)	(0.5)
Total steel segment	3,143.6	100.0	3,160.1	100.0	16.5	0.5

(1) Comprises sales revenue derived primarily from the sale of by-products, services and other steel products.

Our three main products, in terms of sales revenue, in the first nine months of both 2005 and 2004 were slabs, hot-rolled steel and cold-rolled steel, which, in total, represented 71.6% and 73.4%, respectively, of total segment revenue.

The largest growth, in sales revenue terms, of our steel segment products was attributable to sales of grain oriented steel, which increased by \$119.4 million or 147.2% in the first nine months of 2005 compared to the first nine months of 2004. This was primarily due to price increases for those products, which represented the largest rise in prices of all our steel products. Sales revenue from hot-rolled steel and pre-painted steel increased by \$96.9 million, or 14.5%, and by \$30.0 million, or 22.2%, respectively, in the nine months ended September 30, 2005 in comparison with the nine months ended September 30, 2004, primarily due to price increases. Sales revenue from cold-rolled steel increased by \$21.7 million, or 3.2%, in the nine months ended September 30, 2005, in comparison with the nine months ended September 30, 2004, also due to price increases, partially offset by a decrease in sales volumes.

We significantly decreased production and sales of slabs and pig iron in the first nine months of 2005 compared to the first nine months of 2004, primarily as a result of plant maintenance that we extended in response to the decline in steel prices in the second and third quarters of 2005. As a result of this decrease, our sales of slabs and pig iron decreased by \$164.9 million, or 17.0%, and by \$109.8 million, or 63.1%, respectively, in the first nine months of 2005 compared to the first nine months of 2004.

Total export sales revenue represented 58.0% of our total consolidated sales revenue in the nine months ended September 30, 2005, compared to 63.0% in the nine months ended September 30, 2004. The decrease was primarily due to lower sales of slabs and pig iron as a result of the decrease in production in 2005.

Mining segment

Our mining segment's sales revenues increased on a consolidated basis by 98.8%, to \$98.6 million in the nine months ended September 30, 2005 from \$49.6 million for the nine months ended September 30, 2004, representing 2.9% of our consolidated sales revenue in the first nine months of 2005, compared to 1.5% in the corresponding period of 2004. On a standalone basis before consolidation, our mining segment sales revenue increased to \$467.2 million in the nine months ended September 30, 2005 from \$256.0 million in the nine months ended September 30, 2004. These increases in sales revenue were due primarily to our consolidation of Stoilensky GOK and an increase in the price of iron ore. Intersegmental sales by our mining segment to our steel segment represented 78.9% of total mining segment sales during the first nine months of 2005, a decrease from 80.6% during the first nine months of 2004.

Other

Sales revenue of our other operations on a consolidated basis increased by \$107.0 to \$129.0 million in the nine months ended September 30, 2005 from \$22.0 million in the nine months ended September 30, 2004, representing 3.8% of our consolidated sales revenue in the first nine months of 2005, compared to 0.7% in the corresponding period of 2004. The increase was primarily attributable to the consolidation for the first nine months of 2005 of our non-wholly owned subsidiary port operator, OJSC TMTP, which was consolidated with effect from July 1, 2004, and our subsidiary electricity supply company that we established in the second half of 2004. Intersegmental sales revenue of our other operations in the nine months ended September 30, 2005 represented 1.8% of total sales revenue of our other operations on a standalone basis, an increase from 0.4% for the first nine months of 2004.

Cost of sales and gross margin

Cost of sales primarily comprises the costs of raw materials, energy costs, payroll costs and depreciation.

Our total cost of sales as a percentage of our sales revenue was 51.9% in the nine months ended September 30, 2005, compared to 47.7% in the nine months ended September 30, 2004, and consequently our gross margin decreased to 48.1% for the nine months ended September 30, 2005 as compared to 52.3% for the nine months ended September 30, 2004.

The first nine months of 2005 were characterized by a significant decrease in steel segment gross margin, from 49.4% to 41.4%, which was partially offset by an increase in mining segment gross margin, to 55.9% from 45.4%, in each case on a standalone segmental basis before consolidation. The gross margin of our other

operations in the first nine months of 2005 decreased from 37.1% to 32.1%, on a standalone segmental basis before consolidation, largely due to a lower gross margin from operations of our subsidiary electricity supply company that we established in the second half of 2004.

The following table shows the gross profit and gross margin for our steel and mining segments and other operations for the periods indicated, in each case on a standalone segmental basis.

	Nine months ended September 30,					
	2004			2005		
	Steel	Mining	Other ⁽³⁾	Steel	Mining	Other ⁽³⁾
	(Unaudited)			(Unaudited)		
	(Amounts in millions of U.S. dollars, except gross margin (%))					
Revenue from external customers ⁽¹⁾	3,143.6	49.6	22.0	3,160.1	98.6	129.0
Intersegmental revenue ⁽²⁾	3.0	206.4	0.1	3.3	368.6	2.3
Production cost	(1,460.3)	(101.0)	(9.3)	(1,708.8)	(152.7)	(76.1)
Depreciation and amortization	(130.4)	(38.8)	(4.6)	(144.3)	(53.2)	(13.0)
Gross profit	1,555.9	116.2	8.2	1,310.3	261.3	42.2
Gross margin	49.4	45.4	37.1	41.4	55.9	32.1

(1) Represents sales to external customers outside of the NLMK group.

(2) Represents sales to customers within the NLMK group. Revenues attributable to these sales are eliminated on consolidation.

(3) Principally comprises our seaport services business and our finance business.

Steel segment

Gross profit of our steel segment on a standalone segmental basis decreased by 15.8% in the nine months ended September 30, 2005, as compared to the corresponding period in 2004, to \$1,310.3 million. This decrease was primarily due to the lower rate of increase of our steel sales revenue in the first nine months of 2005, compared to the corresponding period in 2004, largely as a result of reduced production due to plant maintenance that we extended in response to the decline in steel prices in the second and third quarters of 2005, and the continuing increases in the price of raw materials in the period.

The table below shows the components of our cost of sales of our steel segment for the periods indicated on a standalone segmental basis, before consolidation adjustments and intersegmental eliminations.

	Nine months ended September 30,					
	2004		2005			
	Cost of sales of steel segment		Cost of sales of steel segment		Change	
	(%)		(%)			
	(Unaudited)		(Unaudited)			
	(Amounts in millions of U.S. dollars, except percentages)					
Iron ore ⁽¹⁾	368.5	23.2	484.1	26.1	115.6	31.4
Coal and coke	413.4	26.0	445.0	24.0	31.6	7.6
Scrap	122.7	7.7	123.1	6.7	0.4	0.3
Alloying elements (including zinc and ferro-alloys)	92.7	5.8	95.2	5.1	2.5	2.7
Other materials ⁽²⁾	139.5	8.8	172.4	9.3	32.9	23.6
Payroll costs	141.3	8.9	167.7	9.0	26.4	18.7
Depreciation	130.4	8.2	144.3	7.8	13.9	10.7
Electricity (external supplies)	76.9	4.8	84.8	4.6	7.9	10.3
Gas	49.2	3.1	58.1	3.2	8.9	18.1
Other costs	56.1	3.5	78.4	4.2	22.3	39.8
Total cost of sales of steel segment	1,590.7	100.0	1,853.1	100.0	262.4	16.5

(1) Figures include purchases from Stoilensky GOK, the principal subsidiary of our mining segment. Following our acquisition of Stoilensky GOK on March 31, 2004, costs incurred by our steel segment attributable to the purchase of iron ore from Stoilensky GOK are included in segmental revenues of our mining segment.

(2) Primarily comprises costs attributable to spare parts and ongoing maintenance.

The cost of sales of our steel segment primarily consists of the costs of raw materials, depreciation, payroll and energy costs. The cost of sales of our steel segment on a standalone basis before consolidation increased by

\$262.4 million, or 16.5%, to \$1,853.1 million in the nine months ended September 30, 2005 from \$1,590.7 million in the nine months ended September 30, 2004. This increase in cost of sales was primarily attributable to an increase in the prices of our main raw materials that we purchased, including iron ore, coal and other materials, and an increase in energy prices. References in our discussion to the prices of our raw materials and energy relate to the price that we paid, unless otherwise indicated. The cost of iron ore (primarily supplies of Stoilensky GOK), coal, scrap, ferro-alloys and other materials represented 71.2% of our steel segment cost of sales in the nine months ended September 30, 2005, a decrease from 71.5% in the first nine months of 2004.

The market price of iron ore at the end of the first nine months of 2005 was higher, compared with the end of the first nine months of 2004. However, the acquisition of a controlling interest in Stoilensky GOK in March 2004 largely insulated us, on a consolidated basis, from the impact of the increases in prices of iron ore in the first nine months of 2005 as compared with the corresponding period in 2004, since substantially all costs incurred by our steel segment attributable to the purchase of iron ore from Stoilensky GOK were recorded as segmental revenues of our mining segment. See “— Intersegmental Sales and Vertical Integration” above.

The prices of all our raw materials and our energy costs increased in the nine months ended September 30, 2005, compared to the nine months ended September 30, 2004, with prices of iron ore and coal rising at the highest rates during that period.

Payroll costs increased by \$26.4 million or 18.7% in the nine months ended September 30, 2005, primarily as a result of planned salary increases. The depreciation expense of our steel segment increased by 10.7% from \$130.4 million in the nine months ended September 30, 2004 to \$144.3 million in the nine months ended September 30, 2005, primarily due to the replacement of plant equipment under our technical upgrading program.

Mining segment

The acquisition of Stoilensky GOK and its consolidation in our group from April 1, 2004 has allowed us to become self-sufficient in iron ore concentrate and to reduce our exposure to the continued increases in iron ore prices in the first nine months of 2005. On a standalone basis before consolidation, our mining segment increased its gross profit from \$116.2 million in the nine months ended September 30, 2004 to \$261.3 million in the nine months ended September 30, 2005, and increased its gross margin to 55.9% in the nine months ended September 30, 2005 from 45.4% in the nine months ended September 30, 2004.

Cost of sales of our mining segment primarily consists of depreciation, costs of raw materials and payroll, repair and energy costs. The depreciation of our mining segment assets, in the first nine months of 2005, was primarily attributable to licenses to develop mineral deposits.

The following table shows, for the nine months ended September 30, 2005, a cost of sales breakdown for our principal mining subsidiary, Stoilensky GOK, and total costs of sales of our other mining subsidiaries.

	Cost of sales ⁽¹⁾	
	(%)	
	(Amounts in millions of U.S. dollars, except percentages)	
Materials	47.4	25.9
Payroll costs	28.4	15.5
Depletion and depreciation, including mineral rights	51.2	27.9
Electricity	29.1	15.9
Fuel	8.0	4.4
Other costs	19.1	10.4
Total cost of sales of Stoilensky GOK	183.2	100.0
Cost of sales of other mining subsidiaries	22.7	
Total cost of sales of mining segment	205.9	

- (1) Costs attributable to repair and maintenance have been included, to the extent applicable, in the relevant cost items in the above table.

Selling, general and administrative expenses

Our total selling, general and administrative expenses increased by \$80.2 million, or 68.9%, to \$196.6 million in the nine months ended September 30, 2005 from \$116.4 million in the nine months ended September 30, 2004.

The following table shows a breakdown of selling, general and administrative expenses for the periods indicated.

	Nine months ended September 30,		
	2004	2005	Change (%)
	(Unaudited)	(Unaudited)	
	(Amounts in millions of U.S. dollars, except percentages)		
General and administrative expenses	46.4	112.0	141.4
Selling expenses	45.6	48.0	5.3
Taxes other than income tax	24.4	36.6	50.0
Total selling, general and administrative expenses	116.4	196.6	68.9

General and administrative expenses consist primarily of expenses relating to management, research and development, security and consulting services. General and administrative expenses increased by \$65.6 million, or 141.4%, to \$112.0 million in the nine months ended September 30, 2005 from \$46.4 million in the nine months ended September 30, 2004, primarily due to general and administrative expenses in our newly acquired subsidiaries, Stoilensky GOK and OJSC TMTP, which we consolidated from April 1, 2004 and July 1, 2004, respectively, and salary increases in the first nine months of 2005. Also included in general and administrative expenses for the first nine months of 2005 was a \$31.5 million stock-based compensation expense in connection with the sale by our controlling shareholder in August of 2005 of our shares to companies beneficially owned by certain members of our Board of Directors and management, as described in Note 13(e) to the unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. See “Principal and Selling Shareholders — Recent Changes in our Principal Shareholders”.

Selling expenses consist primarily of packaging, transportation (primarily external to our domestic customers and internal between our facilities and production lines and to NLMK-DV, our trading branch in the Far East of Russia), salaries attributed to our sales activities and trade tariffs. Selling expenses increased by \$2.4 million, or 5.3%, to \$48.0 million in the nine months ended September 30, 2005 from \$45.6 million in the nine months ended September 30, 2004, primarily attributable to the increase in transportation tariffs and the resulting transport expenses of new subsidiaries in our non-steel segment operations. By contrast, since our steel segment has historically sold the majority of its products on Free Carrier, or FCA, terms, there has generally been no direct correlation between the growth of transportation tariffs and its sales costs. We have recently begun to revise arrangements for delivery of our steel products. See “Business — Sales and transportation of products — Transportation of products”.

Taxes other than income tax increased by \$12.2 million, or 50.0%, to \$36.6 million in the nine months ended September 30, 2005 from \$24.4 million in the nine months ended September 30, 2004, primarily due to property tax on increased property plant and equipment, largely in connection with our technical upgrade program, and tax expenses of our newly acquired subsidiaries, Stoilensky GOK and OJSC TMTP.

As a percentage of sales revenue, selling, general and administrative expenses increased to 5.8% of sales revenue in the nine months ended September 30, 2005, compared to 3.6% of sales revenue in the nine months ended September 30, 2004, primarily due to increases in selling, general and administrative expenses of our newly acquired subsidiary Stoilensky GOK and the stock-based compensation expense recorded in 2005.

Loss on disposals of property, plant and equipment

Loss on disposals of property, plant and equipment was \$6.9 million in the nine months ended September 30, 2005, compared to \$6.1 million in the nine months ended September 30, 2004, an increase of 13.1%. Loss on disposals of property, plant and equipment in the nine months ended September 30, 2005 primarily consisted of the write-off of obsolete equipment in connection with our technical upgrading program.

Gain/(loss) on investments

Gain/(loss) on investments was a \$1.1 million loss in the nine months ended September 30, 2005, compared to a \$141.1 million gain in the nine months ended September 30, 2004. The gain on investments in the nine

months ended September 30, 2004 was primarily attributable to gains from investments by our subsidiary bank, OJSC Lipetskcombank, in debt and equity securities. At the end of 2004 substantially all such investments were realized. The loss on investments in the nine months ended September 30, 2005 was mainly attributable to the partial disposition of our investment in KMA Ruda, as part of our restructuring of that entity in early 2005.

Interest income

Interest income increased by \$39.3 million, or 116.6%, to \$73.0 million in the nine months ended September 30, 2005 from \$33.7 million in the nine months ended September 30, 2004, as a result of the higher amount of funds that we placed in interest-bearing deposit accounts, and an increase in interest income of our subsidiary bank, OJSC Lipetskcombank, as a result of the growth of its loan portfolio.

Interest expense

Interest expense was \$10.7 million in the nine months ended September 30, 2005, compared to \$9.5 million in the nine months ended September 30, 2004. The interest expense in both periods was primarily attributable to interest expenses of our subsidiary bank, OJSC Lipetskcombank.

Foreign currency exchange loss, net

Foreign currency exchange loss, net increased to \$19.0 million in the nine months ended September 30, 2005, compared to \$5.2 million in the nine months ended September 30, 2004. Our foreign currency exchange loss, net for both periods primarily resulted from losses generated on cash, cash equivalents and accounts receivable denominated in U.S. dollars due to the depreciation of the value of the U.S. dollar against our functional currency, the ruble, which more than offset gains in euro amounts resulting from the appreciation of the euro against the ruble.

Other expense, net

Other expense, net in the nine months ended September 30, 2005 was \$8.2 million, primarily comprising social expenses, including the provision of social services in Lipetsk and contributions made to a charity fund. Other expense, net of \$2.7 million in the nine months ended September 30, 2004 primarily comprised expenses of non-core subsidiaries.

Income tax

Our income tax expense in the nine months ended September 30, 2005 was \$394.8 million, compared to \$405.6 million in the nine months ended September 30, 2004. Our effective tax rate (total income tax expense calculated as a percentage of our reported income before income tax and minority interest) for the nine months ended September 30, 2005 was 27.0%, compared to 23.6% for the nine months ended September 30, 2004. Our effective tax rate, exclusive of the effects of deferred taxes, for these periods was 26.2% and 23.2%, respectively.

Minority interest

Minority interest in income of subsidiaries represents the share of minority shareholders in the results of operations of our non-wholly owned subsidiaries. Minority interest in income of subsidiaries amounted to \$22.6 million in the nine months ended September 30, 2005, compared to \$16.1 million in the nine months ended September 30, 2004. The increase in minority interest in income of subsidiaries in 2005 was primarily attributable to the increase in the net income of Stoilensky GOK and OJSC TMTP.

Net income

For the reasons set forth above, our net income decreased by \$248.8 million, or 19.2%, to \$1,045.8 million in the nine months ended September 30, 2005 from \$1,294.6 million in the nine months ended September 30, 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Sales revenue

Total sales revenue increased by \$2,070.7 million, or 83.9%, to \$4,538.7 million in 2004 from \$2,468.0 million in 2003.

Sales revenue of our steel segment on a consolidated basis grew by 79.6% to \$4,399.6 million in 2004 from \$2,450.2 million in 2003, representing 96.9% of our consolidated sales revenue in 2004, compared to 99.3% in 2003.

Sales revenue of our mining segment on a consolidated basis grew by 336% to \$75.0 million in 2004 from \$17.2 million in 2003, representing 1.7% of our consolidated sales revenue in 2004, compared to 0.7% in 2003.

Sales revenue of our other operations on a consolidated basis grew to \$64.1 million in 2004 from \$0.6 million in 2003, representing 1.4% of our consolidated sales revenue in 2004, compared to less than 0.1% in 2003. The increase was primarily attributable to the acquisition of our non-wholly owned subsidiary port operator, OJSC TMTP, which was consolidated with effect from July 1, 2004.

Steel segment

Sales revenue of our steel segment on a consolidated basis grew by 79.6% to \$4,399.6 million in 2004 from \$2,450.2 million in 2003, representing 96.9% of our consolidated sales revenue in 2004, compared to 99.3% in 2003. On a segmental basis before intersegmental operations, the sales revenue of our steel segment increased by 79.6% to \$4,403.0 million in 2004 from \$2,451.2 million in 2003.

The increase in steel segment sales revenue in 2004 was attributable to an increase in average realized selling prices across our product line and an increase in the volume of sales of some of our steel products, including pig iron, slabs and some high value-added products, such as non-grain oriented steel and pre-painted steel, which more than offset declines in volume of sales of cold-rolled steel and galvanized steel products.

The following table shows a breakdown of our steel segment revenue from external customers, on a consolidated basis after intersegmental eliminations, by our main products for the periods indicated.

	Year ended December 31,					
	2003		2004		Change	
	Amount of revenues	% of steel segment revenues	Amount of revenues	% of steel segment revenues		(%)
(Amounts in millions of U.S. dollars, except percentages)						
Pig iron	115.7	4.7	267.0	6.1	151.3	130.8
Slabs	593.7	24.2	1,442.0	32.8	848.3	142.9
Hot-rolled steel	507.1	20.7	928.5	21.1	421.4	83.1
Cold-rolled steel	621.7	25.4	851.8	19.4	230.1	37.0
Galvanized steel	149.7	6.1	171.3	3.9	21.6	14.4
Pre-painted steel	134.8	5.5	195.5	4.4	60.7	45.0
Grain oriented steel	85.1	3.5	118.5	2.7	33.4	39.2
Non-grain oriented steel	109.1	4.5	217.0	4.9	107.9	98.9
Other operations ⁽¹⁾	133.3	5.4	208.0	4.7	74.7	56.0
Total steel segment	2,450.2	100.0	4,399.6	100.0	1,949.4	79.6

(1) Comprises sales revenue derived primarily from the sale of by-products, services and other steel products.

A substantial part of our increase in steel segment revenues from external customers in 2004, as compared to 2003, was attributable to an increase in the prices of all our steel products and, to a lesser extent the growth in the volume of sales of our steel products, other than cold-rolled steel and galvanized steel. Our three main products, in terms of sales revenue and volume of sales, in both 2004 and 2003 were slabs, hot-rolled steel and cold-rolled steel. The largest growth, in terms of sales revenue of all our steel segment products in 2004 was attributable to slabs as a result of substantially increased prices in our export markets and growth in the volume of sales. Sales revenue from slabs increased by \$848.3 million, or 142.9%, in comparison with 2003, followed by hot-rolled steel and cold-rolled steel, which increased by \$421.4 million and \$230.1 million, respectively. In addition, we achieved an increase of \$151.3 million, or 130.8%, in pig iron sales revenue as a result of increased prices that on average doubled in 2004, as well as growth in sales volumes. Sales revenue from the sales of grain-oriented steel, cold-rolled steel and galvanized steel increased by 39.2%, 37.0% and 14.4%, respectively, in 2004, in comparison with 2003.

The share of our total steel segment sales revenue attributable to slabs increased to 32.8% in 2004 from 24.2% in 2003, reflecting both prices, which increased at a higher rate than the prices of any of our other steel products, and growth in volume of sales. As a result, the aggregate share of total steel segment revenues attributable to high value-added products (hot-rolled steel, cold-rolled steel, electrical and coated steels) dropped

to 56.4% in 2004 from 65.7% in 2003, notwithstanding the aggregate increase in our steel segment sales revenue attributable to coated and electrical steels of \$223.6 million, or 46.7%, to \$702.3 million in 2004. The increase in coated and electrical steel sales revenue was due to both price increases for those products and the higher volume of sales of pre-painted steel and electrical steel, of which non-grain oriented steel recorded the largest increase in volume of sales of all our steel products.

Total export sales revenue represented 64% of our total sales revenue in 2004, compared to 58% in 2003, as a result of the greater increase of prices of our exported steel products compared to the level of increase of prices in our domestic market. Slabs, which have historically been our major export product as a result of consistent demand in international markets and low volume of sales in Russia, continued to account for the largest share of our exports.

Mining segment

Sales revenue of our mining segment on a consolidated basis grew by 336% to \$75.0 million in 2004 from \$17.2 million in 2003, representing 1.7% of our consolidated sales revenue in 2004 compared to 0.7% in 2003. This significant increase in sales revenue was due primarily to our acquisition of Stoilensky GOK and an increase in the price of iron ore. On a standalone basis before consolidation, sales revenue of our mining segment increased to \$412.3 million in 2004 from \$40.3 million in 2003. Intersegmental sales by our mining segment to our steel segment represented 81.8% of total mining segment sales during 2004 compared to 57.3% in 2003.

Other

Sales revenue of our other operations on a consolidated basis grew to \$64.1 million in 2004 from \$0.6 million in 2003, representing 1.4% of our consolidated sales revenue in 2004, compared to less than 0.1% in 2003. The increase was primarily attributable to the consolidation of our non-wholly owned subsidiary port operator, OJSC TMTP, which was consolidated with effect from July 1, 2004. Sales revenue of our other operations, on a standalone basis before consolidation, was \$64.3 million in 2004. In 2003, all sales revenue of our other operations was attributable to external customers. Sales revenue on a standalone basis in 2004 was due primarily to revenues derived by OJSC TMTP from our steel segment.

Cost of sales and gross margin

Our total cost of sales as a percentage of our sales revenue decreased to 47.0% in 2004 from 58.8% in 2003, increasing our gross margin to 53.0%.

The gross margin of our steel segment, on a standalone segmental basis before consolidation, increased to 49.6% in 2004 from 41.0% in 2003. The gross margin of our mining segment, on a standalone segmental basis before consolidation, also increased to 50.4% in 2004 from 12.4% in 2003. The gross margin of our other operations, on a standalone segmental basis before consolidation, was 32.5% in 2004.

The following table shows the gross profit and gross margin for our steel and mining segments and other operations for the periods indicated, in each case on a standalone segmental basis.

	Year ended December 31,					
	2003			2004		
	Steel	Mining	Other ⁽³⁾	Steel	Mining	Other ⁽³⁾
	(Amounts in millions of U.S. dollars, except gross margin (%))					
Revenue from external customers ⁽¹⁾	2,450.2	17.2	0.6	4,399.6	75.0	64.1
Intersegmental revenue ⁽²⁾	1.0	23.1	—	3.4	337.3	0.2
Production cost	(1,291.8)	(33.2)	(0.4)	(2,046.1)	(144.5)	(34.4)
Depreciation and amortization	(155.4)	(2.1)	(0.3)	(174.6)	(60.0)	(9.0)
Gross profit	1,004.0	5.0	(0.1)	2,182.3	207.8	20.9
Gross margin	41.0	12.4	(16.7)	49.6	50.4	32.5

(1) Represents sales to external customers outside of the NLMK group.

(2) Represents sales to customers within the NLMK group. Revenues attributable to these sales are eliminated on consolidation.

(3) Principally comprises our seaport services business and our finance business.

Steel segment

Our steel segment more than doubled its gross profit in 2004, reaching \$2,182.3 million, and increased its gross profit margin on a standalone basis to 49.6% in 2004 from 41.0% in 2003. The increase in the gross profit

margin of our steel segment was primarily attributable to the overall rate of increase in the prices of our steel products generally exceeding the rate of increase in the cost of the raw materials that we purchased, as well as to the effect of our costs saving program.

The table below shows the components of our cost of sales of our steel segment for the periods indicated on a standalone segmental basis.

	Year ended December 31,				
	2003		2004		Change (%)
	Cost of sales of steel segment		Cost of sales of steel segment		
	(%)	(%)	(%)	(%)	
(Amounts in millions of U.S. dollars, except percentages)					
Iron ore ⁽¹⁾	269.2	18.6	541.6	24.4	101.2
Coal and coke	326.0	22.5	581.7	26.2	78.4
Scrap	126.0	8.7	170.2	7.7	35.1
Alloying elements (including zinc and ferro-alloys)	75.7	5.2	119.3	5.4	57.6
Other materials ⁽²⁾	123.7	8.5	177.3	8.0	43.3
Payroll costs	144.6	10.0	167.9	7.6	16.1
Depreciation	155.4	10.7	174.6	7.9	12.4
Electricity (external supplies)	83.2	5.8	103.2	4.6	24.0
Gas	44.5	3.2	55.4	2.5	24.5
Other costs	98.9	6.8	129.5	5.7	30.9
Total cost of sales of steel segment	1,447.2	100.0	2,220.7	100.0	53.4

- (1) Figures include purchases from Stoilensky GOK, the principal subsidiary of our mining segment. Following our acquisition of Stoilensky GOK on March 31, 2004, costs incurred by our steel segment attributable to the purchase of iron ore from Stoilensky GOK are included in segmental revenues of our mining segment.
- (2) Primarily comprises costs attributable to spare parts and ongoing maintenance.

The cost of sales of our steel segment increased by \$773.5 million, or 53.4%, to \$2,220.7 million in 2004 from \$1,447.2 million in 2003. This increase in cost of sales was primarily attributable to an increase in the prices of the main raw materials that we purchased, including iron ore, coal and scrap. The increased aggregate volume of sales of our steel products in 2004 was the primary factor behind the increase in cost of sales. Purchases of iron ore (primarily supplies of Stoilensky GOK in 2004), coal, scrap, ferro-alloys and other materials represented about 71.7% of our steel segment cost of sales in 2004.

The price of iron ore generally increased throughout 2004, except for a few temporary decreases, and, at the end of 2004, the price was significantly higher, as compared with the end of 2003. However, the acquisition of a controlling interest in Stoilensky GOK in March 2004 largely insulated us, on a consolidated basis, from the impact of the increases in prices of iron ore during that period, since substantially all costs incurred by our steel segment attributable to the purchase of iron ore from Stoilensky GOK were recorded as segmental revenues of our mining segment. See “— Intersegmental Sales and Vertical Integration” above.

The prices of all the other raw materials and energy increased in 2004 from 2003, with the prices of coke and ferro-alloys rising at the highest rates during 2004 of all of our raw materials after iron ore.

Payroll costs increased by approximately 16.1% in 2004, primarily as a result of the indexation of personnel salaries. The depreciation expense of our steel segment increased from \$155.4 million in 2003 to \$174.6 million in 2004, primarily due to the replacement of plant equipment under our technical upgrading program.

Mining segment

The acquisition of Stoilensky GOK allowed us to become self-sufficient in iron ore concentrate and to reduce our exposure to the significant increases in iron ore prices in 2004. On a standalone basis before consolidation, our mining segment increased its gross profit from \$5.0 million in 2003 to \$207.8 million in 2004, and increased its gross margin to 50.4% in 2004 from 12.4% in 2003, primarily due to our acquisition of Stoilensky GOK, following our consolidation of this entity from April 1, 2004.

The depletion and depreciation of our mining segment assets in 2004 was primarily attributable to depreciation of our licenses to develop mineral deposits.

The following table shows, for 2004, a cost of sales breakdown for our principal mining subsidiary, Stoilensky GOK, and total costs of sales of our other mining subsidiaries.

	Cost of sales ⁽¹⁾	
	(%)	
	(Amounts in millions of U.S. dollars, except percentages)	
Raw materials	36.4	22.8
Payroll costs	25.7	16.1
Depletion and depreciation, including mineral rights	56.2	35.3
Electricity	27.2	17.1
Fuel	4.8	3.0
Other costs	9.1	5.7
Total cost of sales of Stoilensky GOK⁽²⁾	159.4	100.0
Cost of sales of other mining subsidiaries	45.1	
Total cost of sales of mining segment	204.5	

- (1) Costs attributable to repair and maintenance have been included, to the extent applicable, in the relevant cost items in the above table.
- (2) For the nine months, commencing April 1, 2004, after our acquisition of a controlling interest on March 31, 2004.

Selling, general and administrative expenses

Our total selling, general and administrative expenses increased by \$48.8 million, or 36.3%, to \$183.4 million in 2004 from \$134.6 million in 2003.

The following table shows a breakdown of selling, general and administrative expenses for the periods indicated.

	Year ended December 31,		
	2003	2004	Change (%)
	(Amounts in millions of U.S. dollars, except percentages)		
General and administrative expenses	69.5	92.5	33.1
Selling expenses	40.8	57.8	41.7
Taxes other than income tax	24.3	33.1	36.2
Total selling, general and administrative expenses	134.6	183.4	36.3

General and administrative expenses increased by \$23.0 million, or 33.1%, to \$92.5 million in 2004 from \$69.5 million in 2003, primarily due to general and administrative expenses in newly acquired subsidiaries (Stoilensky GOK and OJSC TMTP) and the payment of special bonus awards to employees of our steel segment.

Selling expenses increased by \$17.0 million, or 41.7%, to \$57.8 million in 2004 from \$40.8 million in 2003, primarily attributable to the increase in trade tariffs and transport expenses of new subsidiaries. As we sold the majority of our products in 2004 and 2003 on Free Carrier, or FCA, terms, there was generally no direct correlation between our transportation tariffs and our sales costs during those periods.

Taxes other than income tax increased by \$8.8 million, or 36.2%, to \$33.1 million in 2004 from \$24.3 million in 2003, primarily due to property tax on increased property plant and equipment, largely in connection with our technical upgrading program, and tax expenses of our newly acquired subsidiaries, Stoilensky GOK and OJSC TMTP.

As a percentage of sales revenue, selling, general and administrative expenses decreased to 4.0% in 2004, compared to 5.5% of sales revenue in 2003.

Loss on disposals of property, plant and equipment

Loss on disposals of property, plant and equipment was \$12.2 million in 2004, compared to \$8.0 million in 2003, an increase of 52.5%. Loss on disposals of property, plant and equipment in 2004 primarily consisted of the write-off of obsolete equipment in our main production facilities as we continued our technical upgrading program.

Gain/(loss) on investments

Gain/(loss) on investments was a \$165.2 million gain in 2004, compared to a \$12.1 million gain in 2003. The gain on investments in 2004 was primarily attributable to gains from investments by our subsidiary bank, OJSC Lipetskcombank, in debt and equity securities. OJSC Lipetskcombank liquidated substantially all of those investments by the end of 2004.

Interest income

Interest income increased by \$16.4 million, or 48.8%, to \$50.0 million in 2004 from \$33.6 million in 2003, principally as a result of the higher amount of funds that we placed in interest-bearing deposit accounts, and an increase in interest income of our subsidiary bank, OJSC Lipetskcombank, as a result of the growth of its loan portfolio.

Interest expense

Interest expense was \$12.3 million in 2004, compared to \$7.3 million in 2003. Interest expense in 2004 and 2003 was primarily attributable to interest expenses of our subsidiary bank, OJSC Lipetskcombank, and interest expenses on a capital lease.

Foreign currency exchange loss, net

Foreign currency exchange loss, net decreased to \$39.1 million in 2004, compared to \$43.0 million in 2003. Our foreign currency exchange loss, net for both years primarily resulted from losses generated on cash, cash equivalents and accounts receivable denominated in U.S. dollars due to the depreciation of the value of the U.S. dollar against our functional currency, the ruble, which more than offset gains in euro amounts resulting from the appreciation of the euro against the ruble. In 2004, the U.S. dollar depreciated at a slower rate against the ruble than in 2003.

Other income/(expense), net

Other expense, net in 2004 was \$10.5 million, primarily comprising social expenses, including the provision of social services in Lipetsk and contributions made to a charity fund. Other income, net of \$12.0 million in 2003 primarily comprised a gain of \$21.0 million that we recorded as a result of the early repayment to us by an entity controlled by our controlling shareholder of a long-term interest free loan given in 2002, for which we had recorded a loss in 2003 arising from interest imputed on that loan in accordance with U.S. GAAP treatment of interest free loans. See "Transactions with Related Parties". This gain offset expenses incurred in the provision of social services in Lipetsk.

Income tax

Our income tax expense in 2004 was \$572.2 million, compared to \$223.0 million in 2003. Our effective tax rate for 2004 was 24.2%, compared to 25.3% for 2003. Our effective tax rate, exclusive of the effects of deferred taxes, for these periods was 25.7% and 26.8%, respectively.

We recorded an increased deferred tax income benefit in 2004, which was attributable primarily to our acquisition of Stoilensky GOK and OJSC TMTP in 2004. We incurred a significant deferred tax liability on property, plant and equipment in respect of these acquisitions due to the difference between the U.S. GAAP carrying value of the net assets of those companies, determined at fair value upon the date of acquisition, and the tax carrying value of those net assets. The differences were subsequently reduced, resulting in deferred income tax benefit.

Minority interest

Minority interest in income of subsidiaries amounted to \$19.3 million in 2004, compared to minority interest in income of subsidiaries of \$2.2 million in 2003. The increase in minority interest in income of subsidiaries in 2004 was primarily attributable to the share of minority shareholders in the net income of KMA Ruda and OJSC Lipetskcombank, accounting for \$9.0 million and \$1.8 million, respectively, and in the net income of two subsidiaries that we acquired in 2004, Stoilensky GOK and OJSC TMTP, each accounting for \$3.9 million.

Net income

For the reasons set forth above, net income increased by \$1,116.0 million, or 170.0%, to \$1,772.5 million in 2004 from \$656.5 million in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Sales revenue

Total sales revenue increased by 44.2% to \$2,468.0 million in 2003 from \$1,711.7 million in 2002.

Sales of our steel segment on a consolidated basis grew by 44.8% to \$2,450.2 million in 2003 from \$1,692.6 million in 2002, representing 99.3% of our total consolidated sales in 2003, compared to 98.9% in 2002.

The increase in steel segment sales revenue in 2003 primarily reflected higher average realized prices for all our steel products and increased volumes of sales for pig iron, slabs and a number of high value-added products, most notably non-grain oriented steel, which more than offset the decreased volume of sales of hot-rolled steel.

The following table shows a breakdown of our steel segment revenue from external customers, on a consolidated basis after intersegmental eliminations, by our main products for the periods indicated.

	Year ended December 31,				Change	
	2002		2003			
	Amount of revenues	% of steel segment revenues	Amount of revenues	% of steel segment revenues		
						(%)
(Amounts in millions of U.S. dollars, except percentages)						
Pig iron	59.3	3.5	115.7	4.7	56.4	95.1
Slabs	447.0	26.4	593.7	24.2	146.7	32.8
Hot-rolled steel	365.3	21.6	507.1	20.7	141.8	38.8
Cold-rolled steel	408.1	24.1	621.7	25.4	213.6	52.3
Galvanized steel	119.6	7.1	149.7	6.1	30.1	25.2
Pre-painted steel	102.6	6.1	134.8	5.5	32.2	31.4
Grain oriented steel	71.6	4.2	85.1	3.5	13.5	18.9
Non-grain oriented steel	46.5	2.7	109.1	4.5	62.6	134.6
Other operations ⁽¹⁾	72.6	4.3	133.3	5.4	60.7	83.6
Total steel segment	1,692.6	100.0	2,450.2	100.0	757.6	44.8

(1) Comprises sales revenue derived primarily from the sale of by-products, services and other steel products.

The increase in our steel segment sales revenue from external customers in 2003, as compared with 2002, was largely attributable to the increase in the prices of our steel products and, to a lesser extent, the growth in the volume of sales of our steel products. Our three main products, in terms of sales revenue and volume of sales, in both 2004 and 2003 were slabs, hot-rolled steel and cold-rolled steel. The largest growth, in terms of sales revenue, of all our steel products in 2003 was attributable to cold-rolled steel. Sales revenue from cold-rolled steel increased by \$213.6 million, or 52.3%, from 2002, followed by slabs, which increased by \$146.7 million, or 32.8%, and hot-rolled steel, which increased by \$141.8 million, or 38.8%. Although all our steel products benefited from increased prices in 2003, the increase of sales revenue attributable to our other steel products varied from 18.9% for grain oriented steel to 134.6% for non-grain oriented steel.

Sales of high value-added products, including hot-rolled steel, cold-rolled steel, coated steel and electrical steel, represented nearly 66% of our steel segment sales revenue in both 2003 and 2002. Sales of coated and electrical steels increased, in aggregate, by 40.7% to \$478.7 million in 2003 from \$340.3 million in 2002, representing approximately 20% of our total steel segment sales revenue in 2003.

The largest increase in the price of our products was in the price of pig iron and hot-rolled steel, each of which increased by approximately 46% in 2003, compared to 2002. The largest increase in volume of sales was in the volume of sales of non-grain oriented steel, which increased by approximately 75% in 2003 from 2002.

Total export sales revenue represented 58% of our total sales revenue in 2003, compared to 61% in 2002, primarily as a result of the increase of prices and demand for our steel products in our domestic market, and the decline in the value of the U.S. dollar. As a result of growing domestic demand and in order to take advantage of increased prices in the domestic market, we increased our volume of domestic sales of our steel products in 2003, compared to 2002. Our volume of export sales of our steel products also increased in 2003 and slabs continued to account for the largest share. As a result of higher domestic prices for cold-rolled and galvanized steel, we reduced our volume of export sales of those products in 2003 in order to increase sales to domestic consumers.

Cost of sales and gross margin

Cost of sales increased by \$354.7 million, or 32.4%, to \$1,451.1 million in 2003 from \$1,096.4 million in 2002. The increase in our cost of sales was primarily attributable to an increase in the prices of the raw materials that we purchased, an increase in our production of high value-added products, an increase in gas prices and an increase in the amount of energy that we purchased from external providers as a result of our overall increase in the volume of production.

Cost of sales as a percentage of sales revenue decreased to 58.8% in 2003 from 64.1% in 2002, which resulted in our gross profit margin increasing to 41.2%. This improvement in gross profit margin was primarily attributable to the rate of increase in the price of our steel products exceeding the rate of the increase in the cost of the raw materials that we purchased. As a result of the higher prices and higher production volumes of our steel products, the consolidated gross profit of our steel segment increased to \$1,004.0 million in 2003 from \$605.9 million in 2002.

The prices of iron ore generally increased throughout 2003, particularly in the second half of the year. The prices of scrap metal in 2003 were consistently higher than in 2002, although these prices were subject to significant fluctuations in 2003 as price increases in the first and third quarters of that year were followed by price decreases in the second and fourth quarters.

Depreciation expense of our steel segment increased to \$155.4 million in 2003 from \$142.9 million in 2002, primarily due to replacement of plant under our technical upgrading program.

Selling, general and administrative expenses

Our total selling, general and administrative expenses increased by \$31.2 million, or 30.2%, to \$134.6 million in 2003 from \$103.4 million in 2002.

The following table shows a breakdown of selling, general and administrative expenses for the periods indicated.

	Year ended December 31,		
	2002	2003	Change (%)
(Amounts in millions of U.S. dollars, except percentages)			
General and administrative expenses	37.7	69.5	84.4
Selling expenses	32.1	40.8	27.1
Taxes other than income tax	33.6	24.3	(27.7)
Total selling, general and administrative expenses	103.4	134.6	30.2

General and administrative expenses increased by \$31.8 million, or 84.4%, to \$69.5 million in 2003 from \$37.7 million in 2002, primarily due to an increase in the salaries resulting from indexations, the payment of special bonus awards to employees of NLMK and an increase in insurance expenses.

Selling expenses increased by \$8.7 million, or 27.1%, to \$40.8 million in 2003 from \$32.1 million in 2002, primarily attributable to the increase in trade tariffs and higher transportation costs as a result of a significant increase in sales by NLMK-DV, our trading branch in the Far East of Russia (resulting in increased internal transportation costs to that branch).

Taxes, other than income tax, decreased by \$9.3 million, or 27.7%, to \$24.3 million in 2003 from \$33.6 million in 2002, primarily due to the revocation of road tax, which was previously calculated as 1% of sales revenue.

As a percentage of sales revenue, selling, general and administrative expenses decreased to 5.5% in 2003, compared to 6.0% of sales revenue in 2002.

Loss on disposals of property, plant and equipment

Loss on disposals of property, plant and equipment was \$8.0 million in 2003, compared to \$8.9 million in 2002, which represented a decrease of 10.1%. Loss on disposals of property, plant and equipment in 2003 and 2002 primarily consisted of the write-off of obsolete equipment in our main production facilities.

Gain/(loss) on investments

Gain/(loss) on investments was a \$12.1 million gain in 2003, compared to a \$2.7 million loss in 2002. The gain on investments in 2003 was primarily attributable to gains from investments by our subsidiary bank, OJSC Lipetskcombank, in debt and equity securities. The loss on investments in 2002 was primarily attributable to an accrued loss of \$1.7 million on our investment in OJSC Kuzbassugol.

Interest income

Interest income increased by \$19.4 million, or 136.6%, to \$33.6 million in 2003 from \$14.2 million in 2002, as a result of the higher amount of funds that we placed in interest-bearing deposit accounts.

Interest expense

Interest expense was \$7.3 million in 2003, compared to \$3.4 million in 2002. The increase in interest expense in 2003 was primarily attributable to the increased portfolio of deposits of our subsidiary bank, OJSC Lipetskcombank, and an increase in capital lease volumes.

Foreign currency exchange loss, net

Foreign currency exchange loss, net was \$43.0 million in 2003, compared to \$18.2 million in 2002. Our foreign currency exchange loss, net for both years primarily resulted from losses generated on cash, cash equivalents and accounts receivable denominated in U.S. dollars due to the depreciation of the value of the U.S. dollar against our functional currency, the ruble, which more than offset gains in euro-denominated amounts resulting from the appreciation of the euro against the ruble.

Other income/(expense), net

Other income, net in 2003 was \$12.0 million, compared with other expense, net of \$26.0 million in 2002. Other income (expense), net in 2003 and 2002 includes a gain of \$21.0 million and a loss of \$20.5 million, respectively, on a long-term interest free loan given in 2002. The loss on the loan was due to imputed interest calculated at the date of origination of the loan in accordance with the requirements under U.S. GAAP for accounting for an interest-free loan. In 2003, the loan was repaid and the gain on early repayment was recognized. See "Transactions with Related Parties". Other expenses also includes expenses related to the provision of social services in Lipetsk in both years.

Income tax

Our income tax expense in 2003 was \$223.0 million, compared to \$129.7 million in 2002. Our effective tax rate for 2003 was 25.3%, compared to 27.7% for 2002. Our effective tax rates, exclusive of the effects of deferred taxes, for these periods were 26.8% and 28.7%, respectively.

Prior to January 1, 2003, the Russian economy was considered hyperinflationary. In accordance with U.S. GAAP, our functional currency was the same as our reporting currency. The Russian economy ceased to be considered hyperinflationary as at January 1, 2003, resulting in a change in our functional currency to the Russian ruble. As a result of this change in our functional currency, we recorded a significant deferred tax liability directly in stockholders' equity. The reduction of this liability resulted in increased deferred income tax benefit, which has been recorded in our statement of income from 2003.

Minority interest

Minority interest in income of subsidiaries was \$2.2 million in 2003, compared to minority interest in loss of subsidiaries of \$1.2 million in 2002. Minority interest in income of subsidiaries in 2003 was primarily attributable to the share of minority shareholders in the net income of OJSC Lipetskcombank of \$1.3 million and KMA Ruda of \$0.6 million. Minority interest in loss of subsidiaries in 2002 was primarily attributable to the share of minority shareholders in the net losses of OJSC Lipetskcombank and KMA Ruda.

Net income

For the reasons set forth above, net income increased by \$318.1 million, or 94.0%, to \$656.5 million in 2003 from \$338.4 million in 2002.

Liquidity and Capital Resources

Historically, our major source of cash has been cash provided by operating activities, and we expect that this will continue to be our principal source of cash in the near future. As at September 30, 2005, we had cash and cash equivalents of \$1,932.7 million and total debt of \$19.9 million. See “— Liquidity”.

Capital requirements

Our principal financing requirements have been, and continue to be, to finance production of steel and steel products and our mining operations, and to fund the following major activities:

- Capital expenditures, including the purchase of equipment and modernization of facilities in connection with our technical upgrading program; and
- Acquisitions.

We also declared and paid substantial amounts of dividends during 2003, 2004 and the first nine months of 2005.

Historically, funding of our capital requirements has come from cash flows from our operating activities. We intend to continue to fund our capital expenditures primarily from these cash flows, as well as, if necessary, external sources of financing.

Capital expenditures

Our business is heavily dependent on plant and machinery for the production of steel and steel products and mining. Investments to maintain, expand and increase the efficiency of production facilities are, accordingly, an important priority and have a significant effect on our cash flows and future results of operations. In 2000, we embarked on a significant technical upgrading program for our steel segment, which was designed to increase the efficiency of our production process by reducing unit costs, increase the quality of our products, increase the production of high value-added products, reduce energy consumption and expand our own energy generation capacity, expand our product range and improve environmental protection and safety conditions. From 2000 to 2002, we made capital expenditures of \$468 million, of which we estimate \$368 million was for the technical upgrading program and, from 2003 to 2004, we made capital expenditures of \$509 million, of which we estimate \$461 million was for the technical upgrading program. During the first nine months of 2005, we made capital expenditures of \$421 million, of which we estimate \$367 million was for the technical upgrading program, and expect to make an additional \$109 million in capital expenditures in the final quarter of 2005, of which we estimate \$71 million will be for the technical upgrading program. Capital expenditures in the first nine months of 2005 included capital expenditures of \$64 million in Stoilensky GOK, of which we estimate \$29 million was allocated to expansion and upgrading, and, in the fourth quarter of 2005, we expect to invest a total of approximately \$15 million in Stoilensky GOK, of which we estimate \$13 million will be allocated to expansion and upgrading.

In 2006, we will commence the second phase of our technical upgrading program, focusing on achieving continued improvements in the efficiency and quality of our operations. We currently estimate that the total cost of the second phase of the program will be approximately \$2,700 million, which we currently plan to allocate among our steel production operations (\$1,640 million), Stoilensky GOK (\$570 million), the Zhernovskoe-1 coal deposit (\$430 million) and OJSC TMTP (\$60 million). See “Business — Technical Upgrading Program” for details of our capital expenditure program for our steel segment and “Business — Raw Materials and Energy” for details of our capital expenditure program for our mining segment. These plans are still under formulation, however, and it is possible that our actual expenditures will differ, perhaps to a significant extent, from these estimates. Failure to undertake planned expenditures on production facilities could adversely affect our ability to maintain and/or enhance our competitive position and develop high value-added products.

Recent acquisitions

Our two significant acquisitions in 2004 were our acquisition of controlling interests in Stoilensky GOK and OJSC TMTP. We acquired an approximately 96.5% stake in Stoilensky GOK in a series of transactions for a total of \$659.3 million. In addition to our initial 0.5% stake in Stoilensky GOK, a 90.9% stake was acquired by our controlling shareholder for \$598.7 million and later transferred to us. We paid to our controlling shareholder a total of \$636.5 million for those interests. Subsequently, we acquired an additional 5.6% interest in Stoilensky

GOK from minority shareholders for \$22.8 million. The fair value of the mineral rights, property, plant and equipment and goodwill acquired in our acquisition of Stoilensky GOK was \$486.9 million, \$223.3 million and \$95.5 million, respectively. See Note 21(c) to the consolidated financial statements for 2004 included elsewhere in this prospectus for more information on this acquisition. We acquired our controlling interest in OJSC TMTP for \$189 million and the fair value of the property, plant and equipment and goodwill acquired in our acquisition of OJSC TMTP was \$95.5 million and \$78.2 million, respectively. See Note 21(c) to the audited consolidated financial statements for 2004 included elsewhere in this prospectus for more information on this acquisition. In August 2005, we acquired at auction for \$38.4 million a license for the exploration and development of the Zhernovskoe-1 coal deposit. We continue to consider acquisitions that will help us achieve further vertical integration, better access to attractive steel markets, principally on a regional basis, and further develop our downstream capabilities and balance our production portfolio. See “— Acquisitions and Disposals”.

Cash flows

The table below sets forth our summarized cash flows for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
	(Amounts in millions of U.S. dollars)				
Net income	338.4	656.5	1,772.5	1,294.6	1,045.8
Non-cash adjustments added-back	171.5	123.0	76.1	41.4	260.5
Changes in operating assets and liabilities	(12.5)	(111.2)	(179.3)	(399.0)	(124.0)
Net cash provided by operating activities	497.4	668.3	1,669.3	937.0	1,182.3
Net cash used in investing activities	(221.8)	(409.1)	(98.3)	(318.7)	(391.1)
Net cash provided by (used in) financing activities	(81.2)	41.1	(1,025.7)	(662.1)	(163.8)
Net increase/(decrease) in cash and cash equivalents	194.4	300.3	545.3	(43.8)	627.4

Operating activities

Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation, amortization and other items, and the effect of changes in working capital. Net cash provided by operating activities increased by \$245.3 million or 26.2% to \$1,182.3 million for the nine months ended September 30, 2005 from \$937.0 million for the corresponding period of 2004, primarily as a result of the impact of non-cash items and changes in working capital, which offset the decrease in our net income for the nine months ended September 30, 2005 compared to the corresponding period of 2004.

Net cash provided by operating activities was \$497.4 million, \$668.3 million and \$1,669.3 million in the years ended December 31, 2002, 2003 and 2004, respectively. The increase in net cash provided by operating activities during these periods was primarily due to increased profitability of our business.

Changes in working capital items from period to period, including as a result of external factors, have had and will continue to have a significant effect on cash provided by operating activities. For example, increasing prices of purchased raw materials or the threat of disruption to the supply of those raw materials may warrant maintaining higher inventory levels in order to hedge against further price increases. Deteriorating economic conditions may result in delayed collections of accounts receivable and vendors may require more prompt payments as a condition of doing business with us. However, we have begun to mitigate this risk through the acquisition of our own supplies of raw materials, including, for example, through the acquisition of Stoilensky GOK. The increasing size of our business has required and will continue to require higher levels of working capital.

Investing activities

Net cash used in investing activities was \$391.1 million for the nine months ended September 30, 2005 and was primarily attributable to net purchases and construction of property, plant and equipment of \$411.9 million, partially offset by net proceeds from sales of investments of \$23.9 million. Net cash used in investing activities for the nine months ended September 30, 2004 was \$318.7 million and was primarily attributable to cash used in acquisitions of subsidiaries of \$151.1 million, and purchases and construction of property, plant and equipment of \$164.8 million.

Net cash used in investing activities for the year ended December 31, 2004 was \$98.3 million and was primarily attributable to net cash used for purchases and construction of property, plant and equipment of \$261.1 million and cash used in acquisitions of subsidiaries of \$173.8 million, partially offset by net proceeds from sales of investments of \$333.3 million. Net cash used in investing activities for the year ended December 31, 2003 was \$409.1 million and was primarily attributable to net cash used for purchases and construction of property, plant and equipment of \$223.6 million and net purchases of investments of \$169.9 million. Net cash used in investing activities for the year ended December 31, 2002 was \$221.8 million and was primarily attributable to net cash used for purchases and construction of property, plant and equipment of \$152.8 million and loans given, net of loan repayments of \$71.0 million. See “— Capital Requirements — Capital Expenditures”.

Financing activities

Net cash used in financing activities for the nine months ended September 30, 2005 of \$163.8 million was due to payment of dividends of \$174.6 million, offset by net proceeds from borrowings of \$10.8 million. Net cash used in financing activities for the nine months ended September 30, 2004 of \$662.1 million was primarily attributable to the payments made to our controlling shareholder for common control transfer of interests in Stoilensky GOK of \$509.0 million, payment of dividends of \$122.3 million, repayments of borrowings of \$21.3 million and capital lease payments of \$9.5 million.

Net cash used in financing activities during the year ended December 31, 2004 of \$1,025.7 million was due to \$632.4 million in payments to our controlling shareholder for common control transfer of interests in subsidiaries, including Stoilensky GOK, \$332.8 million dividend payment, repayments of borrowings of \$19.6 million and capital lease payments of \$40.8 million. Net cash provided by financing activities during the year ended December 31, 2003 of \$41.1 million was primarily due to proceeds from repayment of loan by controlling shareholder of \$71.4 million and proceeds from controlling shareholder for sale of investments of \$38.1 million, partially offset by payment of dividends of \$61.7 million. Net cash used in financing activities during the year ended December 31, 2002 of \$81.2 million was primarily due to net repayment of borrowings of \$84.3 million. See “—Capital Requirements—Recent acquisitions”.

Dividends

During 2003, 2004 and the nine months ended September 30, 2005, we declared a substantial amount of dividends. During the nine months ended September 30, 2005, we declared dividends of RUR 1.8 per share, in a total amount of \$382.3 million which, excluding an insignificant amount of unclaimed dividends, was paid by August 2005. During the year ended December 31, 2004 and 2003 we declared a dividend of RUR0.6045 per share in a total amount of \$338.9 million and RUR 312.5 per share in a total amount of \$61.7 million, respectively. No dividends on the common shares were declared in 2002.

Our dividend policy, which was approved by our shareholders on June 25, 2004, targets dividend payments of 25% of our annual net income and provides for a minimum annual dividend payment of at least 15% of our annual net income, as determined under U.S. GAAP. The amount of any dividend payment for any particular period is subject to the recommendation of the Board of Directors and approval by our shareholders and restrictions under Russian law. See “Dividend Policy” and “Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Dividends”.

Liquidity

Historically, we have relied on cash from our operating activities as our main sources of liquidity.

We had cash and cash equivalents of \$1,932.7 million at September 30, 2005. Of this amount, time deposits were \$1,661.1 million, of which \$923.6 million was held in U.S. dollars, \$496.3 million was held in euros and \$241.2 million was held in rubles. A majority of our cash and cash equivalents are held in several major Russian banks, including our subsidiary bank and Russian subsidiaries of foreign banks.

As of September 30, 2005, we had total debt of \$19.9 million. Our subsidiary bank has credit lines available to it, although no material amounts were drawn under those lines as at September 30, 2005. We have no other credit lines available to us at present.

We believe that our cash flows from operations, combined with our cash on hand, will be adequate to satisfy our working capital requirements and capital expenditures currently in progress. Future requirements for our business needs, including those in order to implement the second phase of our technical upgrading program from

2006 through 2010, the funding of acquisitions and additional capital expenditures, and any amounts that may ultimately be paid in connection with contingencies, are expected to be financed by a combination of cash flows generated by our operating activities and cash on hand, as well as, if necessary, external sources of financing. However, our business may not generate sufficient operating cash flow and external source of financing may not be available in an amount sufficient to enable us to service or refinance our indebtedness or to fund other liquidity needs. Moreover, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Russian and other financial markets, prevailing interest rates, our credit rating and the Russian government's policies regarding ruble and foreign currency borrowings. See "Risk Factors — Risks Relating to Our Business and Industry — Russian currency control regulations may hinder our ability to conduct our business".

Our view with respect to liquidity and our ability to avail ourselves in the future of the financing options mentioned in the above forward-looking statements are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected. Factors that could affect the availability of financing include our performance (as measured by various factors, including cash provided from operating activities), levels of inventories and accounts receivable, the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the global financial climate, the level of our outstanding debt and credit ratings by rating agencies.

Other than as described above and elsewhere in this prospectus, no significant change has occurred to our liquidity since September 30, 2005.

The following table shows some of our liquidity ratios for the periods indicated.

Ratio	As of and for the year ended December 31,			As of and for the nine months ended September 30, 2005
	2002	2003	2004	
Quick ratio ⁽¹⁾	4.2	4.8	3.9	3.8
Inventory days ⁽²⁾	75	72	75	86
Trade receivable days ⁽³⁾	34	30	24	29

- (1) Quick ratio is calculated as period end balances of current assets, excluding restricted cash and inventory, divided by current liabilities as of December 31 and September 30 of the relevant period.
- (2) Inventory days are calculated as simple average of inventory balances as of December 31 and September 30 of the relevant period, as applicable, divided by production cost and multiplied by 365 for the annual periods and by 273 for the nine-month periods, as applicable.
- (3) Trade receivable days are calculated as simple average of trade receivable balances as of December 31 and September 30 of the relevant period, as applicable, divided by sales revenue, multiplied by 365 for the annual periods and by 273 for the nine-month periods, as applicable.

Our quick ratio increased between 2002 and 2003, reflecting the significant increase in current assets due to cash flows generated from operating activities. The decline in the quick ratio from 2003 to 2004 resulted primarily from the use of cash in acquisitions, including Stoilensky GOK, as well as an increase in advances received from domestic customers in line with the increase in domestic sales, while an increase in the balance due from export wholesale traders was partly mitigated by improved turnover of trade receivables. Our quick ratio as of September 30, 2005 declined primarily due to increase in dividend payable in the current liabilities balance at September 30, 2005.

The increase in inventory days for the first nine months ended September 30, 2005 was due to the increase in prices of raw materials during 2004. Generally, we maintain relatively low levels of inventories of raw materials. Since the acquisition of Stoilensky GOK in 2004, we have reduced our iron ore concentrate inventories and we typically maintain a stock of up to nine days' supplies. Generally, we maintain a stock of 23 to 25 days' supply of coal, a period which is approximately equal to the time required to transport coal to our production unit in Lipetsk from our coal suppliers in Siberia, and we maintain one to three days' supply of coke. We typically maintain a stock of 6 days' supply of pellets in the summer period and 33 days' supply in the winter period. We typically maintain 24 days' supply of scrap in the summer period and 31 days' in the winter period. There have been no material changes to our inventory levels in the first nine months of 2005 and we do not currently expect any material changes in these levels in the fourth quarter of 2005 other than these adjustments for summer and winter periods. The gradual improvement in trade receivable days during the years ended December 31, 2002, 2003 and 2004 primarily reflected the transition of domestic customers to prepayment terms, as well as an

increase in domestic sales. The shortening of trade receivable days in 2004 also reflected improved collectibility, as well as significant payments made by the international wholesale traders to whom we sell our products before the year end to avoid cash transfer delays due to the extended New Year holidays that were introduced in Russia in December 2004. This increase in payments before year-end resulted in a lower trade receivable balance at December 31, 2004. Trade receivable days returned to a more normal level at September 30, 2005.

We seek to minimize inventory levels of spare parts for our plant and equipment and our steel products.

Off-balance Sheet Arrangements

We do not currently have off-balance sheet arrangements as defined by US GAAP, other than financial guarantees of \$0.6 million issued by our subsidiary bank, OJSC Lipetskcombank as of September 30, 2005. The definition of “off-balance sheet arrangement” includes any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we, whether or not a party to the arrangement, have, or in the future may have:

- any obligation under a direct or indirect guarantee or similar arrangement;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets;
- derivatives, to the extent that the fair value thereof is not fully reflected as a liability or asset in the financial statements; or
- any obligation or liability, including a contingent obligation or liability arising out of a variable interest in an unconsolidated entity that is held by and material to us, where such entity provides financing, liquidity, market risk or credit support to us, or engages in leasing, hedging or research and development services with us, to the extent that it is not fully reflected in the financial statements.

Contractual Obligations and Commercial Commitments

As at September 30, 2005, we had total capital commitments of \$329.8 million related to contracts for equipment supply and construction works. We do not currently rely on long-term debt financing in our core operations. Our total long-term indebtedness of \$14.7 million and customer deposits of \$32.3 million at September 30, 2005 represent long-term obligations of our non-core subsidiaries, including bank OJSC Lipetskcombank.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates. Management estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions of conditions. Management believes that the following are the most significant judgments and estimates used in the preparation of the financial statements.

Valuation of property, plant and equipment

According to U.S. GAAP, our property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable U.S. GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which we considered as the best basis for the recognition and depreciation of such items. The appraiser provided U.S. dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which we have recorded as our property, plant and equipment balance as of January 1, 2000. As at September 30, 2005, December 31, 2004, 2003 and 2002, the net book value of these items amounted to 22%, 28%, 49% and 65% of total net book value of property, plant and equipment, respectively.

Accounting for business combinations

In the past, we have completed significant business combination transactions and expect to do so in the future to meet our strategic objectives. We accounted for all combinations using the purchase method of accounting.

The accounting for business combinations under the purchase method is complicated and involves the use of significant judgment. Under the purchase method of accounting, a business combination is accounted for at a purchase price based upon the fair value of the consideration given whether it is in the form of cash, assets, stock or the assumption of liabilities. The assets and liabilities acquired are measured at their fair values, and the purchase price is allocated to the assets and liabilities based upon these fair values. Determining the fair values of the assets and liabilities acquired involves the use of judgment, since the majority of the assets and liabilities acquired do not have fair values that are readily determinable. Different techniques may be used to determine fair values, including market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows, among others. Since these estimates involve the use of significant judgment, they can change as new information becomes available.

The most difficult estimations of individual fair values are those involving property, plant and equipment and identifiable intangible assets. We use all available information to make these fair value determinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets. We have, if necessary, up to one year after the acquisition closing date to finish these fair value determinations and finalize the purchase price allocation.

Goodwill represents the excess of the purchase price over the fair value of the acquired underlying identifiable net assets resulting from business acquisitions and is originally stated at cost. At the acquisition date, goodwill is allocated to the reporting units to which it relates. Annually, or earlier if conditions indicate an earlier review is necessary, the carrying value of the reporting unit is compared to an estimate of its fair value. If the estimated fair value is less than the carrying value, goodwill is impaired, and will be written down in accordance with SFAS No. 142, Goodwill and Other Intangible Assets.

Negative goodwill represents the excess of the fair value of the acquired identifiable net assets over the purchase price of the acquisition. Negative goodwill was allocated to the acquired non-current assets, except for deferred taxes and long-term investments in marketable securities, if any, until they were reduced to zero.

Deferred income tax

Deferred 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 temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied 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 when a different tax rate is enacted. We provide valuation allowances for deferred tax assets for which we do not consider realization of such assets to be more likely than not.

Prior to January 1, 2003, when the Russian economy was deemed to be hyperinflationary and as a result of remeasuring our financial statements, we did not recognize deferred tax liabilities or assets for those differences relating to assets and liabilities that, under SFAS No. 52, Foreign Currency Translation, are re-measured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates and indexing for tax purposes. This treatment was in accordance with the requirements of SFAS 109, Accounting for Income Taxes.

The deferred tax effect associated with the temporary differences that arose from the change in our functional currency (from the U.S. dollar to the ruble) when the Russian economy ceased to be considered hyperinflationary on January 1, 2003, was reflected as an adjustment to the cumulative translation adjustment component of accumulated other comprehensive income in the stockholders' equity on January 1, 2003.

New Accounting Pronouncements

Conditional Asset Retirement Obligations

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations. The interpretation requires entities to record a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation shall be effective no later than December 31, 2005. We believe that the adoption of this interpretation in 2005 will not have a material impact on our consolidated financial statements.

Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. This Statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The Statement shall be effective for accounting changes made in fiscal years beginning after December 15, 2005. We cannot estimate the effect that this standard will have relative to the future adoption of any accounting standards that will be applied retroactively.

Consolidation of Variable Interest Entities

In December 2003, the FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities (“FIN 46”), which revised Interpretation No. 46, issued on January 2003. The Interpretation addresses the consolidation of business enterprises (variable interest entities) to which the usual condition of consolidation (ownership of a majority voting interest) does not apply. This Interpretation focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests, a company’s exposure (variable interest) to the economic risks and potential rewards from the variable interest entity’s assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains and losses from changes in the value of the variable interest entity’s assets and liabilities.

Variable interests may arise from financial instruments, service contracts and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements.

We adopted the Interpretation in 2004. The adoption of FIN46 had no material impact on our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, our financial position is routinely subject to a variety of market risks. We are exposed to market risks associated with foreign currency exchange rates, interest rates, commodity prices and equity prices.

We have not historically entered into hedge transactions to manage the risks specified above.

We have not historically held or issued derivative financial instruments for trading purposes.

Foreign currency exchange rate risk

Our functional currency is the Russian ruble and our reporting currency is the U.S. dollar.

Our exports in monetary terms in the nine months ended September 30, 2005 were 58% of our total sales, compared to 64%, 58% and 61% in 2004, 2003 and 2002, respectively. We rely on export sales to generate foreign currency earnings. As we export a significant portion of our production, we are exposed to foreign currency risk as well as global economic and political risks.

Due to our foreign currency denominated assets and liabilities, we are subject to the risk arising from foreign exchange rate fluctuations. Our objective in managing our exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. The following table sets forth our net foreign currency position as at December 31, 2004.

	U.S. dollar	Euro	Other currencies
	(amounts in millions of U.S. dollars)		
Cash and cash equivalents	710.5	312.2	—
Accounts receivable	233.1	115.1	—
Other current assets	15.6	—	—
Investments	19.3	—	—
Other non-current assets	17.6	—	—
Accounts payable and other liabilities	(70.4)	(20.2)	(1.9)
Other long-term liabilities	(1.0)	—	—

Prior to January 1, 2003, the Russian economy was considered hyperinflationary for financial reporting purposes. In accordance with SFAS No. 52's requirements applicable to hyperinflationary market economies, monetary assets and liabilities originally denominated in U.S. dollars were stated at their original U.S. dollar amounts. Monetary assets and liabilities denominated in other currencies were translated into U.S. dollars using the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities, which were denominated in currencies other than U.S. dollars, were translated into U.S. dollars at the exchange rates in effect as at the date of the transaction. Income and expenses, which were earned or incurred in currencies other than U.S. dollars, were translated into U.S. dollars using a basis that approximates the rate of exchange prevailing at the date of the transaction. Gains and losses arising from the translation of assets and liabilities into U.S. dollars were reflected in the consolidated statement of income as foreign currency exchange gains and losses.

The Russian economy ceased to be considered hyperinflationary for financial reporting purposes as of January 1, 2003. At January 1, 2003, our monetary and non-monetary assets and liabilities as well as the related stockholders' equity balance were translated into rubles at the current exchange rate prevailing at January 1, 2003. This translation established a new functional currency basis for us. For periods subsequent to January 1, 2003, the functional currency of the consolidated financial statements (rubles) are translated into the reporting currency (U.S. dollars), utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, Foreign Currency Translation. As a result of these translation procedures, a cumulative translation adjustment of \$214.6 million and \$171.5 million as at December 31, 2004 and 2003, respectively, which accounts for such translation gains and losses, was recorded directly in stockholders' equity. No cumulative translation adjustment was recorded for the period during which the Russian economy was considered hyperinflationary.

The ruble is generally not convertible outside Russia and, as a result, our ability to hedge against devaluation by converting to other currencies is significantly limited. Further, our ability to convert rubles into other currencies in Russia is subject to rules that restrict the purposes for which conversion and the payment in foreign currencies are allowed.

Interest rate risk

We currently have no material outstanding borrowings or long-term debt obligations (other than with respect to the activities of our non-core subsidiaries, including OJSC Lipetskcombank). Therefore, our direct exposure to interest rate risk is limited to the cash amounts which we invest from time to time in interest bearing deposit accounts and other interest bearing investments. Income from these investments is currently not material to our results of operations. However, we may in the future incur significant debt obligations and become more exposed to interest rate fluctuations, in particular to fund our acquisitions or capital expenditure requirements. See "— Liquidity" above.

Commodity price risk

In the normal course of our business, we are primarily exposed to market risk of price fluctuations related to the purchase, production and sale of steel products, and to a lesser extent, to the purchase, production and sale of coal, coke, iron ore and other products.

We do not use commodity derivatives or long-term sales or supply agreements to manage our commodity price risks. The prices of our products under our sales contracts are typically determined on a monthly basis although, in relation to certain products, we may agree to fix prices for periods of three to five months.

Equity price risk

In 2003 and 2004, we invested some of our funds through our subsidiary bank, OJSC Lipetskcombank. The funds were invested in debt and equity securities. These investments were, therefore, partially exposed to market risk of fluctuations in equity prices. Substantially all of these investments were liquidated by the end of 2004. We currently have no material exposure to equity price risk.

STEEL INDUSTRY

Global Steel Industry Overview

Steel is one of the most important, multi-functional and adaptable materials in use today, and is considered to be a backbone of industrial development. The versatility of steel is attributable to the fact that it is hot and cold formable, weldable, hard, resistant to corrosion, water and heat, 100% recyclable and has good machinability. Among the myriad industries in which steel is used are the automotive, consumer appliances, construction, packaging and engineering industries.

The 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, steel imports and protective trade measures. Steel prices respond to supply and demand and have fluctuated in response to general and industry-specific economic conditions.

While steel production has been historically concentrated in the European Union, North America, Japan and the former Soviet Union, steel production in China and the rest of Asia has grown in importance over the past decade, as a result of rising domestic consumption and low manufacturing costs. In 2004, China was the largest single producer of crude steel at 272.5 million tonnes, as well as the largest consumer of crude steel at 265 million tonnes, according to data published by the International Iron and Steel Institute. In the first nine months of 2005, China was again the largest producer of crude steel at 255.3 million tonnes. The European Union, Japan and the United States were the next largest producers and consumers of steel. Russian steel production substantially declined between 1990 and 1998, but has steadily recovered since then. The following table sets forth crude steel production data by country or region for the years 1998 to 2004 and for the nine months ended September 30, 2005.

	Year ended December 31,							Nine months ended September 30, 2005
	1998	1999	2000	2001	2002	2003	2004	
	(in millions of tonnes)							
China	114.6	124	127.2	150.9	182.2	220.1	272.5	255.3
European Union	159.9	155.2	163.4	158.5	158.7	160.7	192.9 ⁽¹⁾	138.8
Japan	93.5	94.2	106.4	102.9	107.7	110.5	112.7	84.6
United States	98.7	97.4	101.8	90.1	91.6	93.7	98.9	69.4
Russia	43.8	51.5	59.1	59.0	59.8	62.7	65.6	48.4
Other Asia	89.8	90.6	98.3	100.1	105	109.6	113.1	77.2
Other Europe	47.9	43.1	47	46.6	48.7	52.6	32.1	21.3
Other	<u>129.1</u>	<u>133</u>	<u>144.4</u>	<u>142.2</u>	<u>150.1</u>	<u>158.4</u>	<u>167.0</u>	<u>124.0</u>
Total	<u>777.3</u>	<u>789.0</u>	<u>847.6</u>	<u>850.3</u>	<u>903.8</u>	<u>968.3</u>	<u>1054.8</u>	<u>819.0</u>

Source: International Iron and Steel Institute.

(1) Includes the ten countries who acceded to the European Union on May 1, 2004.

Historically, the steel industry had been dominated by steel producers in industrialized countries. Producers in Western Europe and Japan had limited 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 last century, producers in emerging markets began to compete with industrialized country steel producers as they took advantage of the lower manufacturing costs in their countries to offset high transportation costs. Despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, global imports and exports increased during the last decade. 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 by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in a build-up of production overcapacities and have put pricing pressures on the value-added segments.

More recently, the industry has been characterized by the globalization of the competitive landscape mainly due to the ability of low-cost emerging market producers to overcome entry barriers, including quality thresholds, reliability of supply, transportation costs and quotas. The increasing pressure on manufacturing companies' costs has also prompted a growing globalization of production towards emerging markets. The

globalization of end-customers is triggering a reduction of steel making capacity in mature markets. In Europe, for instance, some high-cost blast furnaces have been closed and a new attractive export market for slabs has been created. At the same time, the globalization has boosted local consumption of value-added grades in emerging markets.

The increasing bargaining power of raw materials suppliers led many steel producers to seek to acquire mining companies in order to obtain greater control over raw material supplies and retain increased mining profits internally.

Recently, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with a phase of industry consolidation: Usinor, Arbed and Aceralia in Europe merged to form Arcelor, now the world's second largest steel company, Kawasaki Steel and NKK of Japan merged, creating JFE, Nucor acquired Birmingham Steel and ISG acquired Acme, LTV and Bethlehem Steel in the United States and subsequently merged with LNM Holdings and Ispat International to form Mittal Steel Group, the world's largest steel company in terms of production in 2004. Consolidation enables steel companies to lower their production costs and allows for a more stringent supply-side discipline, including through selective capacity closures. Global steel makers such as Arcelor and Mittal Steel Group are seeking growth in emerging markets in order to respond to increasing consumption of steel in those emerging markets, lower their production costs and optimize the size of their mature market operations and follow their global customers. Arcelor is expanding in Brazil, while Mittal Steel Group has recently made a significant expansion into Eastern Europe and has begun to develop its interests in China. In October 2005, Mittal acquired a 93% stake in the formerly state-owned Kryvorizhstal, the second largest steel producer in Ukraine, for \$4.8 billion at auction. In addition, in October 2005, Arcelor, Mittal Steel Group and other steel producers, including NLMK, participated in the auction by the Turkish state of its 46.12% stake in Erdemir, the largest Turkish flat steel producer, at which Erdemir was sold for \$2.8 billion to a group of Turkish financial investors.

Russian Steel Industry Overview

Following the collapse of the Soviet Union, the Russian steel industry suffered a substantial decline in production from over 77 million tonnes in 1991 to 44 million tonnes in 1998. Since then, output has increased by nearly 46%, and, in 2004, Russia produced over 65 million tonnes of crude steel, or 6% of world production, making it the world's fourth largest single producer of crude steel. Russia's overall steel output in 2004 included 53.8 million tonnes of finished steel products, representing about 90% of installed capacity. In the first nine months of 2005, Russia maintained its position as the world's fourth largest single producer of crude steel, producing 48.4 million tonnes of crude steel, or approximately 6% of world production. Russia's finished steel products output in the first nine months of 2005 amounted to 40.2 million tonnes.

Overall, in 2004, the Russian steel industry exported over 28 million tonnes of finished steel products, or 53% of its total output of finished steel products and benefited from healthy global markets, particularly in Asia, which was the most important market for Russian producers during that year. In 2004, Russian exports of finished steel products comprised 8% of all global exports for finished steel products, making Russia the number two exporter of such products after Japan. In the first six months of 2005, the Russian steel industry exported 15.6 million tonnes of finished steel products, or 58% of its total output of finished steel products.

Domestic consumption is also on the rise, driven by economic growth in Russia. Consumption of finished steel products in the Russian economy in 2004 remained relatively low at 198 kilograms per capita, down from nearly 309 kilograms in 1992 and substantially less than in such countries as Japan, which consumed 603 kilograms per capita, the United States, which consumed 404 kilograms per capita, and countries in the European Union, which consumed on average 390 kilograms per capita.

Russian steel producers tend to focus on vertical integration, as a result of Russia's large reserves of natural resources, which enables them to secure a stable supply of certain raw materials, such as iron ore and coking coal for pig iron. In addition, Russian companies are modernizing former state-owned steel production facilities, achieving significant reductions in manufacturing costs, and placing their costs well below those of Western European and North American producers, and improving product quality and technology. The share of open-hearth furnaces in total Russian crude steel production has decreased from 53% in 1990 to 21% in the first nine months of 2005, whereas the share of continuous casting has increased from 23% to 68% during the same period.

Domestic market

As a result of the general economic decline in Russia from 1991 through 1998, demand for steel in Russia, including from the construction and engineering industries and the military sector, which had been historically the principal steel consumers, declined during that period. Total consumption of finished steel products in Russia, which amounted to 66 million tonnes in 1990, declined in the course of the following eight years to a total of 16 million tonnes in 1998.

However, the devaluation of the ruble in 1998 resulted in economic growth and a sharp increase in domestic demand for steel products. Consumption of finished steel products grew by 14.7% in 1999, which was followed by 38.1% additional growth in 2000, outpacing both GDP and industrial production growth. Consumption of finished steel products was approximately 28 million tonnes in 2004, an increase of 7% from 2003.

The major consumers of steel in Russia include the metallurgical industry, the engineering and automotive sectors, the construction industry and metal wholesalers, which together accounted for 93% of the total steel products sold in Russia in 2004. The growth in consumption of finished steel products in 2004 was primarily driven by the increase in consumption of higher value-added products. Whereas overall consumption of rolled steel products grew by 2.3% in 2004, consumption of cold-rolled coils and coated steel grew by 14.6% and 17.4%, respectively.

Russia does not import significant quantities of steel. Imported steel comprised only approximately 11% of total steel consumed in Russia during 2004.

Export market

Exports of finished steel products gradually gained importance during the 1990s, increasing from 12 million tonnes in 1991 to 28.7 million tonnes in 2004. The abolition of steel export duties in 2002 by the Russian government has also improved the export market. The total volume of exports of finished steel products represented 53% of overall Russian steel production in 2004 (48% in the first six months of 2005). In 2004, Russian producers exported 28.7 million tonnes of finished steel products (15.6 million tonnes in the first six months of 2005). Semi-finished products (including slabs and billets) accounted for 45% of exports of finished steel products (46% in the first six months of 2005), and rolled steel products accounted for the remaining 55% (54% in the first six months of 2005). The majority of exports of rolled steel products in 2004 and the first six months of 2005 comprised flat products (40% and 36%, respectively, of total volume of exports and 73% and 66%, respectively, of volume of exports of rolled steel products) and long products (15% and 18%, respectively, of total volume of exports and 27% and 33%, respectively, of volume of exports of rolled steel products). The European Union, Asia, North America and the Middle East are the main export destinations for Russian steel producers.

The following table sets forth by percentage the export destinations for Russian flat-rolled steel products for the periods indicated.

<u>Region</u>	<u>Year ended December 31, 2004</u>	<u>Six months ended June 30, 2005</u>
Europe	24.3	25.9
Asia	26	38
North and South America	14	8
Middle East, including Turkey	17.7	17.1
Other	18	11
Total	<u>100</u>	<u>100</u>

Source: Metall Expert

Producers

The Russian steel industry is characterized by a relatively high concentration of production, with the five largest steel companies accounting for 80% of Russia's total steel production in 2004. These five companies can be divided into two groups by product type. NLMK, MMK and Severstal focus mainly on flat products, and, in 2004, together accounted for 51.6% of total Russian steel output, while EvrazHolding Group and Mechel produce primarily long products, and together accounted for 28.7% of total Russian steel output in 2004.

Recently, EvrazHolding Group has also started to produce merchant slabs. As a result of the specialization of plants in the domestic flat products market, further reducing the number of competitors, we have for most of our products no more than two competitors and, in some instances, none at all (for example, in the case of ultra thin sheets). The geographical location of the main production facilities of the major Russian producers are also an important factor when considering regional market shares within Russia due to the significant transportation costs that result from the great distances between producers and potential customers located in another region of Russia.

The following table provides information on our share, for the periods indicated, of total production of flat rolled steel in Russia, together with the names of our key competitors in these product areas.

Product	Our share of production in Russia in		Key Russian Competitors
	Year ended	Nine months ended	
	December 31, 2004	September 30, 2005	
	(%)		
Cold-rolled steel	34	32	Severstal, MMK
Pre-painted steel	56	45	MMK
Electrical steel	45	47	Severstal, VIZ-Stal
Hot-rolled steel	15	13	MMK, Severstal
Galvanized steel	17	18	Severstal, MMK

Sources: Metall Expert (for 2004) and our market analysis (for the nine months ended September 30, 2005)

The fall in our share of pre-painted steel production in Russia in the first nine months of 2005 compared to 2004 was primarily due to an increase in the production of this product by MMK.

Types of Steel

Steel products are broadly subdivided into two categories — flat and long products. Flat products are sold as slabs, hot-rolled or cold-rolled coils and/or coated sheets. Long products include blooms, billets, wire and bars. We do not produce any long products. Flat products are used primarily in manufacturing industries, such as the consumer appliances and automotive industries, and for construction applications (for example, roofing sheets).

Global Iron Ore Industry Overview

The iron ore industry is characterized by a high degree of consolidation, with 70% of the seaborne iron ore trade controlled by Rio Tinto, CVRD and BHP Billiton. The major producing countries are Brazil, China and Australia. Since 2003, China has been the largest importer of iron ore. In the first nine months of 2005, China imported 198.9 million tonnes of iron ore.

Global prices for iron ore increased substantially in the first nine months of 2005, as compared with the first nine months of 2004, although prices did decline slightly in the second quarter of 2005 due to reduced global demand, which was partly attributable to the growth of Chinese iron ore inventory levels. Iron ore producers have also reported increasing costs of production in that period as a result of an increase in the costs of energy and mining equipment.

Russian Iron Ore Industry Overview

In 2004 and in the nine months ended September 30, 2005, Russia produced 95 million tonnes of iron ore and 71.6 million tonnes of iron ore, respectively, accounting in each period for 8% of global production. Russia, however, has higher production costs than other large producing countries such as Australia and Brazil due to more complex extraction processes.

Russia was the fifth largest producer of iron ore in the world in 2004 and in the first nine months of 2005, and accounts for approximately 16% of the world's iron ore reserves. Production is primarily targeted at domestic steel producers, which consumed 79% of domestic ore production in the first nine months of 2005. In mid-2005, Russian iron ore producers began to reduce their capacity in response to lower domestic demand. In 2004 and in the first nine months of 2005, exports accounted for 16 million tonnes and 14 million tonnes, respectively, of total iron ore production in Russia.

The Russian iron ore market is dominated by the five largest producers: Lebedinsky GOK (27% share of total Russian iron ore production in the first nine months of 2005), Mikhailovsky GOK (17%), Stoilensky GOK (12%), Karelsky Okatysh (9%) and Kachkanarsky GOK (9%). Lebedinsky GOK and Mikhailovsky GOK are

currently under common ownership. The top three producers are located in Russia's largest deposit, Kursk Magnetic Anomaly, which is located in the center of the European part of Russia and approximately three hundred and fifty kilometers from Lipetsk, where we are located.

Total iron ore feed consumption of Russian steel mills, in the first nine months of 2005, comprised concentrate (64%), pellets (26%), and sinter (8%).

BUSINESS

Overview

We are one of the world's leading steel producers and one of the four largest steel producers in Russia. We produced 9.1 million tonnes of crude steel in 2004 (6.2 million tonnes in the first nine months of 2005). In 2004, we generated 64% of our sales revenue from export markets (58% in the first nine months of 2005). We believe that our production facilities are among the most technologically advanced in Russia, producing flat products in a variety of grades and sizes.

We have a diversified portfolio of products, with a strong presence in many industry sectors in both our export and domestic markets. Our product range includes pig iron, slabs, hot- and cold-rolled steel and a variety of value-added products, such as cold-rolled steel sheet, electrical steel, coated sheet and other specialty flat products. In the nine months ended September 30, 2005, we produced 13% of the overall Russian crude steel output, 21% of the overall Russian flat products output and 45% of the overall Russian pre-painted rolled coil steel output. In the nine months ended September 30, 2005, we were the largest producer of cold-rolled steel in Russia with a 32% share of total production, and one of the largest producers of electrical steel in Europe.

Our products are exported, either directly or through wholesale traders, to over 60 countries in South-East Asia, Europe, the Middle East and North America. The wholesale traders, which are under common ownership, are unrelated parties to NLMK. Our exported products primarily consist of slabs (49% in 2004), hot-rolled steel (16%) and cold-rolled steel (14%). In 2004, our share of the global slabs market was approximately 14%. Domestically, our most important markets are the metallurgy and metal works industry, the automotive sector (we are the main supplier to Avtovaz, the largest auto manufacturer in Russia) and the construction industry.

We seek to control our costs throughout our production cycle and believe we enjoy one of the most competitive production cost structures in the global steel industry. We are an increasingly vertically integrated steel producer, with control over many of our raw material supplies. In 2004, we acquired OJSC Stoilensky GOK, the third largest iron ore producer in Russia, which produced approximately 11 million tonnes of iron ore concentrate in 2004 (8 million tonnes in the first nine months of 2005) and has deposits under license (expiring in 2016) having up to 60 years of reserves life. Together with KMA Ruda, another iron ore producer in which we hold a stake, Stoilensky GOK supplies substantially all of our iron ore concentrate requirements. Stoilensky GOK and KMA Ruda are both located in the Kursk Magnetic Anomaly, the world's largest iron ore deposit, which is approximately 350 kilometers from our production facilities. In addition, in 2005, we acquired a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. Based on our current estimates, we expect this deposit to be operational in 2008 and to provide approximately 50% of our coking coal requirements from 2009. We also internally supply other raw material and energy requirements, including, in the nine months ended September 30, 2005, producing 35% of the electricity needs of our steel segment.

Our production facilities are concentrated in the City of Lipetsk, located in the center of the European part of Russia and close to transportation routes. In 2004, we acquired a controlling interest in the principal operator of the Black Sea port of Tuapse, Russia's fifth largest seaport. Our relative proximity to the Baltic and Black Sea ports and our main customers in Russia, most of which are located within 1,500 kilometers of Lipetsk, helps to reduce the costs of transporting our products.

In 2000, we embarked on a significant technical upgrading program, which was designed to upgrade our production equipment and implement advanced technologies in order to increase production levels, improve the quality and range of our products, reduce production costs and lessen the environmental impact of our operations. From 2000 to 2002, we made capital expenditures of \$468 million, of which we estimate \$368 million was for the technical upgrading program; from 2003 to 2004, we made capital expenditures of \$509 million, of which we estimate \$461 million was for the technical upgrading program; during the first nine months of 2005, we made capital expenditures of \$421 million, of which we estimate \$367 million was for the technical upgrading program; and we expect to make an additional \$109 million in capital expenditures in the final quarter of 2005, of which we estimate \$71 million will be for the technical upgrading program. In 2006, we will commence the second phase of this program, focusing on achieving continued improvements in the efficiency, capacity and quality of our operations, as well as further significant expansion of our mining operations to further increase the level of vertical integration. We currently estimate that the total cost of the second phase of the program will be approximately \$2,700 million, which we currently plan to allocate among our steel production operations (\$1,640 million), Stoilensky GOK (\$570 million), the Zhernovskoe-1 coal deposit (\$430 million) and OJSC TMTP (\$60 million). As a result of our investment in our production facilities, our productivity, measured in terms of output of steel per employee of our steel operations, increased by 43% from 2001 to 2004. We are recognized by leading certification agencies and our customers for the high quality of our products and production facilities.

We believe that our proximity to transportation links, our control over an increasing portion of our raw material and energy supplies and our production costs, our program of modernizing our production facilities and our diverse product mix has enabled us to achieve one of the highest profitability margins in the global steel industry as measured by EBITDA margin and net income margin. In 2004, we had sales revenue of \$4,538.7 million, EBITDA of \$2,562.8 million and EBITDA margin of 56.5% and, in the nine months ended September 30, 2005, we had sales revenue of \$3,387.7 million, EBITDA of \$1,627.2 million and EBITDA margin of 48.0%.

History and Development

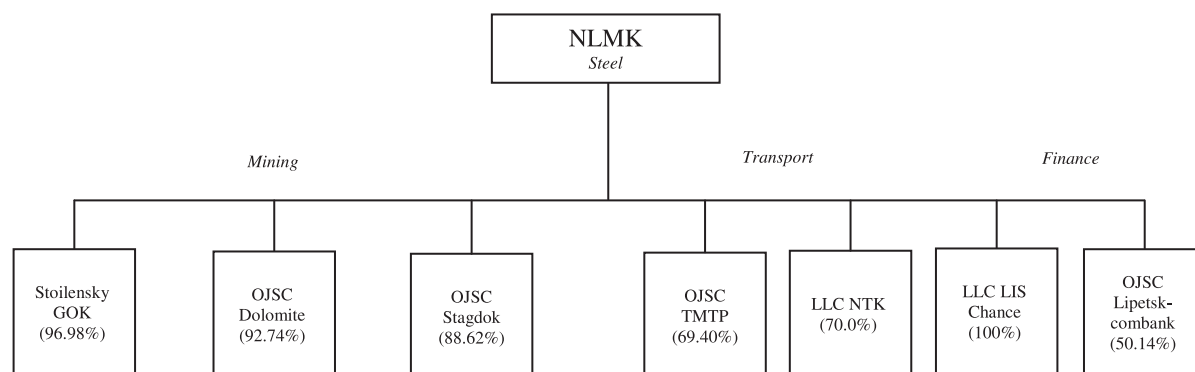
Our predecessor, Novolipetsk Iron and Steel Works, a state-owned enterprise, first began construction of an iron and steel plant at the Lipetsk iron ore mine in 1931 and produced its first pig iron in 1934. After the plant was dismantled during World War II, Novolipetsk Iron and Steel Works began reconstruction of the iron and steel plant at Lipetsk in 1947 and, during the next four decades, continued to develop its production facilities and product range, including the introduction of cold-rolled non-grain orientated steel in 1960 and cold-rolled carbon steel in 1980.

In accordance with the Russian government's program of the privatization of Russian industry in the early 1990s, NLMK was formed as an open joint stock company on December 31, 1992, and was privatized in stages from 1993, initially through a distribution to its employees of vouchers that could be exchanged for shares in NLMK. By the middle of the 1990s, several investors, including Sputnik Group, CCM, Interros and TransWorld Group, had acquired significant stakes in NLMK. Between 2000 and 2004, our current controlling shareholder, Mr. Vladimir Lisin, had, through a series of transactions, acquired a controlling interest in NLMK from this group of investors and NLMK management.

NLMK is the parent company of our group and holds the main assets of our steel operations. In addition, we have acquired a number of businesses, including mining companies that produce raw materials used in our steel production operations. In 1997, we acquired OJSC Dolomite, which mines and processes metallurgical dolomite and, in 1999, we acquired OJSC Stagdok, which mines and processes fluxing limestone. Both of these companies are located in the Lipetsk region. We have become substantially self-sufficient in supplies of iron ore through the acquisition of approximately 97% of the shares of Stoilensky GOK in 2004. In addition, we acquired a stake in KMA Ruda, which, following a restructuring in early 2005, currently stands at 32.9%. Both Stoilensky GOK and KMA Ruda are located in the Belgorod region of the Kursk Magnetic Anomaly, which is approximately 350 kilometers from Lipetsk. In 2004, Stoilensky GOK and KMA Ruda together supplied substantially all our iron ore concentrate requirements. In 2005, we acquired the license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. Based on our current estimates, we expect this deposit to be operational in 2008 and to provide approximately 50% of our coking coal requirements from 2009. We currently expect that, from 2010, we will sell 50% of our coking coal production at this deposit to third parties since we require additional grades of coking coal that are not available at Zhernovskoe-1.

We have invested in transportation services in order to facilitate the delivery of supplies and products. In 2004, we acquired a controlling interest in OJSC TMTP, the principal operator of the Black Sea port of Tuapse. This company provides marine cargo loading, unloading and storage services at the port of Tuapse. See "—Sales and Transportation of Products" below.

The chart below shows the structure of the main operating companies within our group, including the percentage ownership held by NLMK as at September 30, 2005.



Strategy

Our mission is to be the preferred provider of flat steel products to our core customer base and to be the most profitable steel producer in the world. To achieve our mission, we plan to pursue the following strategies:

Maintain our competitive advantage in low cost production and industry profitability

We believe we are one of the world's most profitable and cash generative major steel producers. We intend to build on this position by:

- *Continuing to enhance the modernization and efficiency of our production facilities.* In 2006, we will begin the implementation of the second phase of our technical upgrading program, focusing on increasing our production capacity and quality, decreasing our operating costs, aligning raw material supplies with our plant's needs and increasing our value-added product range.
- *Pursuing self sufficiency through vertical integration.* We perceive vertical integration as of key importance to us in order to achieve our aims of providing high-quality products to our customers together with a reliable customer service and efficient logistics. We believe that the continued vertical integration of our business will help us to better control our access to raw materials and energy requirements and to lower our production costs, as well as capture some of the profits from higher raw material prices that would have been otherwise retained by third-party suppliers. We are currently self-sufficient with respect to our iron ore concentrate requirements and intend to develop the Zhernovskoe-1 coal deposit in order to become 50% self-sufficient in our coking coal requirements by 2009, as well as to continue to increase our self-sufficiency in electricity needs.
- *Increasing profitability through stringent cost management.* We have a stringent cost management system to monitor our cost development on a product basis. We will continue to seek opportunities to reduce purchase costs of raw materials and transportation expenses.

Strengthen our market leadership in flat steel products in our core markets

We believe our diversified product base and access to export markets, in addition to our domestic market, will enable us to strengthen our market leading position in flat products. We believe there is significant potential for strong growth in demand for steel products in Russia and Asia, where steel consumption per capita remains below levels in more industrially developed countries, and stable demand for value-added flat products in mature markets. We have a strong position in key Russian industries, including the metallurgy and metal works, automotive, construction and engineering industries, where steel consumption is expected to grow.

Continue the development of our high value-added product portfolio

We will continue to develop our high value-added product portfolio range to meet the needs of our customers in our core markets. A key goal of our technical upgrading program is to expand our product range by introducing new products into the market and improving product quality. We believe this will enable us to capture opportunities for increasing demand for high value-added products in emerging markets, as well as new opportunities in mature markets. For instance, we will seek to add, as customers, non-Russian producers of consumer appliances and machinery entering the domestic market and to build on sales of our value-added products to complement our already strong position in sales of slab products internationally.

Pursue strategic acquisition opportunities

Following our acquisition of Stoilensky GOK and a license to mine the Zhernovskoe-1 coal deposit, we will continue to seek acquisition opportunities that will help us achieve further vertical integration, in particular, coal deposits or facilities; better penetrate attractive steel markets, principally in countries close to Russia; and further develop our downstream capabilities and balance our production capacity between finished and semi-finished products. Our strong balance sheet and cash generation capabilities provide us with substantial financial capacity to pursue acquisition opportunities.

Competitive Strengths

We believe that we benefit from the following principal competitive strengths:

Leading Russian steel producer with a strong export position

We are the third largest flat steel producer in Russia in terms of production volume. We have a leading domestic market position in rolled flat steel products and, in 2004, had an approximately 14% share of the global

slabs market. We believe that the strength of our domestic and export market positions allows us to take advantage of the most attractive opportunities in both markets and enables us to meet our strategic objective to grow our business with both existing and new customers.

World class assets with a competitive cost production structure

We believe we have world class steel assets and a competitive production cost structure. Our steel plant is the third-largest single-site steel plant in Russia, which allows us to achieve significant economies of scale. We have devoted substantial resources to improve our facilities. From 2000 to 2002, we made capital expenditures of \$468 million, of which we estimate \$368 million was for the technical upgrading program and, from 2003 to 2004, we made capital expenditures of \$509 million, of which we estimate \$461 million was for the technical upgrading program. During the first nine months of 2005, we made capital expenditures of \$421 million, of which we estimate \$367 million was for the technical upgrading program, and expect to make an additional \$109 million in capital expenditures in the final quarter of 2005, of which we estimate \$71 million will be for the technical upgrading program.

In addition to the high quality of our assets, we also enjoy an advantageous location close to both our suppliers and customers. Our iron ore concentrate suppliers are located approximately 350 kilometers from Lipetsk, resulting in lower transportation costs as compared to some of our competitors. Our production facilities are located close to the major steel consuming regions in the center of the European part of Russia and the Volga region. Our relative proximity to the Baltic and Black Sea ports and our main customers in Russia, most of which are located within 1,500 kilometers of Lipetsk, helps to reduce the costs of transporting our products. Finally, as a Russian-based producer, we also have access to lower cost labor, energy and transportation resources relative to some of our international competitors.

Substantial vertical integration with access to raw materials and transport infrastructure

Vertical integration is a key element of our strategy to control our access to raw materials and energy requirements and to lower our overall unit production costs. In 2004, we acquired approximately 97% of Stoilensky GOK, Russia's third largest iron ore producer, which, together with KMA Ruda, an iron ore producer in which we currently hold a 32.9% stake, supplies substantially all of our iron ore concentrate requirements. In 2005, we acquired a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. Based on our current estimates, we expect this deposit to be operational in 2008 and to provide approximately 50% of our coking coal requirements from 2009. We also internally supplied 35% of the electricity needs of our steel segment in the first nine months of 2005, and have acquired a controlling stake in the principal operator of the Black Sea port of Tuapse, the fifth largest seaport in Russia.

Among the world's most profitable and cash generative steel companies

We believe that we are one of the most profitable major steel producers in the world, as measured by EBITDA margin and net income margin. As a result of our proximity to transportation links, our control over an increasing portion of our raw material and energy supplies, our relatively low unit production costs, our program of modernizing our production facilities and our diverse product mix, we have achieved a level of profitability which we believe enables us to maintain a strong financial position despite fluctuations in steel prices. Based on our 2004 EBITDA margin of 56.5%, the highest that we have ever achieved, and available information for global steel producers, we rank as one of the most profitable major steel producers in the world. In the nine months ended September 30, 2005, we had an EBITDA margin of 48.0%.

Diversified portfolio by product and geography

We offer a broad range of products to a wide variety of industry sectors in domestic markets and our products are offered to a diverse geographic spread of export customers. The diversity of our products and export strength gives us the flexibility to focus on the most attractive markets and helps to protect us from downturns in a particular customer segment or geography. Our ability to offer a wide range of high quality steel products supported by comprehensive technical and customer service has helped us to achieve preferred supplier status with several of our core customers.

Strong balance sheet and cash flow generation providing financial flexibility

We believe we have sufficient financial resources to implement the second stage of our technical upgrading program, execute our corporate growth strategy and maintain our dividend policy. The cash provided from

operations, our minimal amount of debt and our substantial cash balance give us a significant degree of financial flexibility. As of September 30, 2005, we had \$1,932.7 million of cash available and a minimal amount of debt.

Strong platform for growth

We believe we are well positioned to pursue our growth strategy as a result of our industry leadership in Russia and globally and our substantial financial resources. We expect consolidation in the global steel industry to continue and to provide us with attractive opportunities to grow our steel business and enhance our access to raw materials. For instance, in the first nine months of 2005, following our acquisition, in 2004, of Stoilensky GOK, Russia's third largest iron ore producer, we were self-sufficient in iron ore concentrate requirements.

Experienced management team with proven track record

Our management team has substantial experience in the steel industry and has an established track record of successfully managing our company. They have introduced a corporate culture focused on the development of technological excellence and human resources as key factors in increasing productivity and profitability.

Commitment to environmental standards

We believe that our emphasis on sustainable development is a critical element of our future success. We are highly committed to the environment and have developed strict policies throughout our operations in order to minimize both the environmental impact of our operations on our local communities and the costs we would bear from non-compliance. For instance, we have developed an Environment Management System, which was re-certified in 2005 for conforming to international standards.

Our Steel Products

Our steel product line currently includes pig iron and a wide range of flat steel products, ranging from low carbon, carbon and low alloy grades of steel with various chemical compositions, strength and stamping properties to cold-rolled grain oriented and cold-rolled non-grain oriented steel grades. We do not currently produce long steel products, such as bars and rods. Our products comply with most of the main Russian and international quality standards.

The table below shows the production volume of our principal steel products for the periods indicated.

Product	Year ended December 31,		Change		Nine months ended September 30,		Change	
	2003	2004			2004	2005		
	Amount	Amount	Amount	(%)	Amount	Amount	Amount	(%)
(in millions of tonnes, except for percentages)								
Pig Iron	8.6	9.0	0.4	4.7	6.7	5.7	(1.0)	(14.9)
Pig iron for sale	0.9	1.1	0.2	22.2	0.7	0.3	(0.4)	(57.1)
Finished steel products	8.0	8.5	0.5	6.3	6.4	5.7	(0.7)	(10.9)
Slabs	3.3	3.8	0.5	15.2	2.7	2.2	(0.5)	(18.5)
Rolled steel products	4.7	4.7	—	—	3.7	3.5	(0.2)	(5.4)
Hot-rolled steel	2.0	2.1	0.1	5.0	1.6	1.6	—	—
Cold-rolled steel	2.7	2.6	(0.1)	(3.7)	2.1	1.9	(0.2)	(9.5)
Coated steel	0.5	0.5	—	—	0.4	0.4	—	—
Hot dip galvanized steel	0.3	0.3	—	—	0.2	0.2	—	—
Pre-painted steel	0.2	0.2	—	—	0.2	0.2	—	—
Electrical steel	0.4	0.5	0.1	25.0	0.4	0.3	(0.1)	(25.0)
Grain oriented	0.1	0.1	—	—	0.1	0.1	—	—
Non-grain oriented	0.3	0.4	0.1	33.3	0.3	0.2	(0.1)	(33.3)

The table below shows the sales attributable to our steel products for the periods indicated.

	Year Ended December 31,									Nine months ended September 30, 2005		
	2002			2003			2004					
	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues	Sales volume (mln tonnes)	Amount of revenues (mln. \$)	% of revenues
Pig iron	0.70	59.3	3.5	0.93	115.7	4.7	1.06	267.0	6.1	0.25	64.3	2.0
Slabs	3.24	447.0	26.4	3.34	593.7	24.2	3.76	1,442.1	32.8	2.21	804.8	25.5
Hot-rolled steel	2.12	365.3	21.6	2.01	507.1	20.7	2.06	928.5	21.1	1.60	765.3	24.2
Cold-rolled steel	1.79	408.1	24.1	1.84	621.7	25.4	1.63	851.8	19.4	1.21	691.8	21.9
Hot dip galvanized steel	0.34	119.6	7.1	0.31	149.7	6.1	0.26	171.3	3.9	0.17	134.8	4.3
Pre-painted steel	0.19	102.6	6.1	0.19	134.8	5.5	0.24	195.5	4.4	0.17	165.2	5.2
Grain oriented steel	0.10	71.6	4.2	0.11	85.1	3.5	0.12	118.5	2.7	0.09	200.5	6.4
Non-grain oriented steel	0.16	46.5	2.7	0.28	109.1	4.5	0.39	217.0	4.9	0.24	174.9	5.5
Other operations ⁽¹⁾	N/A	72.6	4.3	N/A	133.3	5.4	N/A	208.0	4.7	N/A	158.5	5.0
Total	N/A	1,692.6	100.0	N/A	2,450.2	100.0	N/A	4,399.6	100.0	N/A	3,160.1	100.0

(1) Comprises sales revenue derived primarily from the sale of by-products, services and other steel products.

In 2004, we produced 9.1 million tonnes of crude steel (6.2 million tonnes in the first nine months of 2005). We currently expect that our total crude steel production in 2005 will be 8.5 million tonnes, of which 8.0 million tonnes will be finished steel, comprising 4.8 million tonnes of rolled steel products and 3.2 million tonnes of slabs. Our estimated total crude steel production in 2005 is slightly lower than our actual production in 2004, largely as a result of the closure of blast furnace no. 5 from May until August 2005. We closed this furnace for scheduled maintenance for an initial period of two months, and then decided to delay re-commissioning for a further 45 days in order to maintain a reduced level of production in response to the downward trend in global steel prices. As a result of our technical upgrading program, as currently planned, we estimate that our total crude steel production capacity in 2010 will be approximately 10.5 million tonnes, of which 10.0 million tonnes will be finished steel, comprising 6.8 million tonnes of rolled steel products and 3.2 million tonnes of slabs. Actual production levels will depend on several factors, including our ability to implement our capital expenditure program, and may vary significantly from these estimates.

Pig iron

We sell pig iron for use in steel production. We use the majority of our pig iron output (approximately 89% in 2004) to produce crude steel. The pig iron that we produce contains 4.0% to 5.0% of carbon, 0.4% to 1.0% of silicon, 0.03% or less of sulfur and 0.15% or less of phosphorus. See “—Steel Production Process” below.

Slabs

We sell slabs to other steel and metallurgical businesses in our export markets, where the slabs are further processed into other forms of finished steel. In 2004, we refined approximately 56% of the slabs (64% in the first nine months of 2005), which we processed into other products at our production facilities.

Hot-rolled steel

We produce hot-rolled steel for use in the construction of oil and gas pipelines, including those operating under low temperatures and high pressure, the hulls of ships, building structures and high-pressure vessels. Our hot-rolled steel has a width of up to 1,850 millimeters and a thickness range of 1.5 to 16 millimeters. In addition to our standard commercial quality hot-rolled steel, we also produce hot-rolled steel with varying strength characteristics, ranging from a minimum of 300 to 550 Mega Pascals, or MPa.

Cold-rolled steel

We produce cold-rolled steel for cold drawing, enameling, painting and film coating, and also produce structural rolled steel. Our cold-rolled steel is used in the manufacture of automobiles, tractors and combine bodies and in metal structures, stamped goods, casings for household appliances, roofing and facing materials. We produce cold-rolled steel with a width of up to 1,800 millimeters and a thickness range of 0.35 to 2.5 millimeters.

Hot dip galvanized steel

The hot dip galvanized steel that we produce is used in the manufacture of roll-formed sections, building structures, car parts, casings and components for household appliances. We produce galvanized steel with a width of up to 1,800 millimeters and a thickness range of 0.35 to 4.0 millimeters. We also produce titanium micro-alloyed steel, which is used, for example, by the automotive industry in the manufacture of extra deep drawing parts.

Pre-painted steel

We produce pre-painted steel sheet for use in the manufacture of building structures, casings for instruments, household appliances, roofing tiles and other goods. The technical capabilities of our equipment and the high quality of the materials that we use allow us to apply various types of coatings to cold-rolled and galvanized steel of various strengths. We believe that our pre-painted steel is a high-quality construction material with high atmospheric corrosion resistance, decorative qualities and a combination of strength and plasticity.

Electrical steel

We believe that we have the most modern electrical steel production complex of any company in Russia and the CIS and that, in 2004, we were, in terms of volume of production, one of the largest producers of electrical steel in Europe.

We are one of only a few enterprises in the world which specialize in the production of grain oriented steel. The cold-rolled grain oriented steel which we produce is used in the manufacturing of a wide range of transformer cores. We produce cold-rolled grain oriented steel with a heat-resistant insulation coating of the Carlite type in a thickness range of 0.15, 0.20, 0.23, 0.27, 0.30, 0.35, 0.50, 0.70 and 0.80 millimeters and a width of up to 960 millimeters. In addition, we produce commercial quality steel and steel with lower specific losses. Approximately 60% of the grain oriented steel that we produce is covered by steel of highest grades, including grades 3409 to 3408 under Russian industry standard GOST 21427.1, and is used in the manufacture of technologically advanced twisted power and distribution transformer cores. We have also started to produce steel grades with a higher permeability, conforming to Hi-B class.

We specialize in the production of cold-rolled non-grain oriented steel for use in the manufacture of stators and rotors of electric motors and generators of different capacity and in ballast transformers and other electrical equipment. We produce this steel in different alloying groups, ranging from non-alloyed silicon-free non-grain oriented steel to high-alloyed non-grain oriented steel, to both a fully-processed and semi-processed standard. We produce electrical steel in a thickness range of 0.27 to 1.00 millimeters and a width of up to 1,200 millimeters. We also produce semi-processed electrical steel for foreign customers with and without guaranteed magnetic properties. We do not currently sell this steel grade in Russia.

We produce commercial quality steel grades and steel grades with lower specific losses, which are limited by the ratio of hardness and yield strength to tensile strength, for high-speed gapless dies. We have started the trial manufacture of electrical grain oriented steel with high permeability for high efficiency cores.

Quality Control

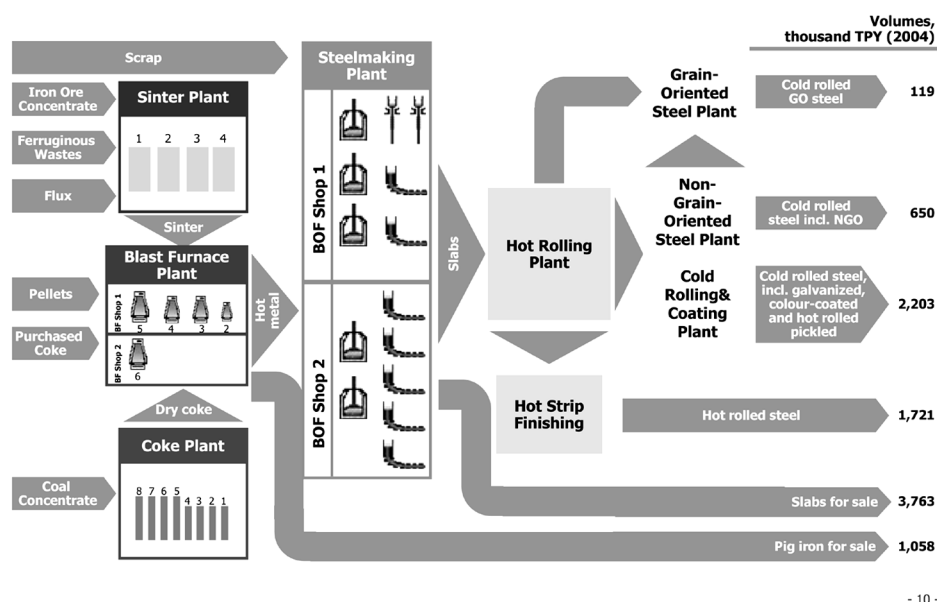
We have implemented a comprehensive set of measures to enhance the quality of our products, which we are continuing to develop in order to meet the requirements of our customers. Our quality control system extends from management level to our production plant floor. Our Technical Inspection Division supervises our quality control system. As at September 30, 2005, our Technical Inspection Division consisted of 1,013 employees, including 67 engineers. In 2004, our Technical Inspection Division spent \$4.8 million in accordance with its budget for that year. Our budget for the Technical Inspection Division in 2005 is \$6.2 million, and we spent \$4.0 million of this budget in the nine months ended September 30, 2005. The principal objectives of our Technical Inspection Division are to control the quality levels of our products and to oversee technological advances in our production process to increase quality levels and our competitiveness. In order to maintain and improve the consistency and quality of our output, we have developed a detailed set of company standards, technical instructions and operating procedure manuals.

Our quality control system has recently been re-certified by the German certification agency TÜV CERT for compliance with the international standards ISO 9001: 2000 and ISO/TU 16949:2002. In 2005, TÜV CERT also re-certified our quality control system for compliance with the requirements of European Council Directive 97/23/EG relating to hot-rolled steel production from steel grades DIN 17100 and DIN EN 10025.

The quality of our products has been recognized by many international companies that use our products and by several leading industry bodies, including Germanischer Lloyd of Germany and the American Bureau of Shipping.

Steel Production Process

The following diagram illustrates the principal steps in the production process of our main steel products. These steps are explained in more detail below.



Sintering

The primary process involves the agglomeration, or sintering, of prepared raw materials, including iron ore concentrate, iron-bearing tailings and flux, or limestone, followed by crushing, to produce particles of at least 40 millimeters in size. The finished product is referred to as agglomerate, or sinter, and is one of the main raw materials used in the blast furnace process. In 2004, we produced approximately 13.8 million tonnes of sinter (9.4 million tonnes in the first nine months of 2005).

Production of coke and by-products

Coke is obtained from coal concentrate and is one of the main raw materials used in the blast furnace process. The primary process involves non-oxidation heating of a prepared coal mixture to a temperature of 900°C to 1100°C for a period of 15 to 17 hours. Our operational coke batteries had a total capacity of approximately 4.3 million tonnes per annum as of January 1, 2005, based on seven operational coke batteries, as coke battery No. 1 was being renovated at that time. Coke battery No. 1 returned to operation in November 2005. Since January 15, 2005, we have been renovating coke battery No. 2, which we currently expect will be operational again by the end of 2006. In 2004, we produced approximately 4.4 million tonnes of coke (2.8 million tonnes in the first nine months of 2005). The coking distillation process is integrated with a by-product plant, which uses coal screenings and other by-products for the production of different types of chemicals, including ammonium sulphate, crude benzol, naphthalene and coke pitch. Five of our seven operational coking batteries are equipped with dry quenching units. Dry quenching technology is used to regenerate a portion of the heat, improve coke quality and reduce pollution. After being screened, coke is transported on a conveyor to blast furnaces, where it is both combusted as a source of heat and acts as a reducing agent to smelt the iron ore. Gas produced by the coke oven is captured and re-used to heat the coke ovens and, secondly, in our own electricity generation facilities.

Blast furnace process

To smelt pig iron, iron ore products, principally comprising sinter, and coke and natural gas, are fed in the blast furnaces. In the resulting combination, the charge is smelted and produces a mixture of pig iron, a carbonized ferro-alloy, and slag. The smelted product is released from the furnace between 15 and 20 times per

day. The pig iron is poured into hot-metal ladle cars and taken to the oxygen converter plant for making into steel, while the slag is poured into slag ladle cars and taken to the slag plant for processing. In 2004, we produced approximately 9.0 million tonnes of pig iron (5.7 million tonnes in the first nine months of 2005).

Steel making

Molten pig iron is the main component of the metal charge used in the production of steel in our basic oxygen converters, which are also referred to simply as oxygen converters. We produce all the steel that we sell in our oxygen converters. The molten pig iron is transported to the basic oxygen converter shop in hot-metal ladle caps. The pig iron is poured into charging ladles and then into the converter. In addition to pig iron, the metal charge consists of scrap metal. The basic oxygen steel making process is exothermic, which requires the use of scrap as a cooling agent. Oxygen, in a form which is over 99.5% pure, is blown into the oxygen converter. This oxidizes the carbon and silicon contained in the molten pig iron. The combustion of carbon monoxide as it exits the oxygen converter vessel also transmits heat. During this melting process, impurities, including sulfur and phosphorus, are removed from the charge. The finished product at this stage is crude steel, ready for further processing at the refining stands. During this processing stage, relatively small quantities of deoxidizers and ferroalloys (for example, aluminum, vanadium and molybdenum) may be added to the crude steel to adjust the quality of the liquid steel to the specific grades required by customers. Depending on the targeted content of carbon, the liquid steel may undergo a further processing stage, referred to as vacuum degassing, before casting. Vacuum degassing is used to achieve ultra-low carbon grades, which are particularly useful for automotive applications.

The molten steel is fed into continuous casting machines and gradually cooled in a copper mold until it acquires the specified dimensions of a slab, and then the slab is withdrawn from the mold and cooled by the application of water until it is fully solidified.

Following this stage of the process, the slabs may be sold or processed further, initially by being rolled into sheet and coils at the hot rolling plant, to produce the required dimensions or metallurgical properties in accordance with one or more of the methods described below. In 2004, we produced approximately 9.1 million tonnes of crude steel (6.2 million tonnes in the first nine months of 2005).

Hot-rolled production

In order to produce hot-rolled steel, slabs from the steelmaking plant are re-heated in a methodical furnace to a temperature of around 1250°C and rolled in a 2000 mill. Slabs are reduced in a set of 12 consecutive stands to a thickness of 1.5 to 16 millimeters. We send part of the product to the finishing plant for cutting and dispatch, while the rest is further processed into cold-rolled product.

Cold-rolled production

In the cold rolling plant, the hot-rolled product is de-scaled by acid pickling and the product is then rolled with no preheating. The rolled metal is then annealed to obtain the required mechanical, electrical and magnetic characteristics (depending on the type of steel). At the final stage, the metal is then cut into the required size and packed.

Galvanizing

During the galvanizing process, cold-rolled steel receives a coating treatment to improve its resistance to corrosion. The steel is passed through a molten zinc bath which deposits a thin layer of zinc on the surface of the sheet after cooling. The steel is recoiled at the end of the process. Hot-dip galvanized sheets are a key product for the automotive, construction and consumer appliances industry. Hot-dip galvanizing has replaced electro-galvanizing as the preferred coating process for volume-driven flat products.

Pre-painting

During the organic coating process, steel passes first through a unit of chemical preparation, then through a paint application appliance and then receives a heat treatment to set the color and give a uniform coating to the sheet. This process presents the technological challenge of ensuring a perfect application of paint during a short painting process, a uniformity of sheet surface and the required thinness of the applied layer.

Steel Production Facilities

Our steel production facilities are concentrated in the City of Lipetsk, which is located approximately 500 kilometers from Moscow in the center of the European part of Russia.

Our integrated steel making facility occupies approximately 27 square kilometers. We own the facility and the land on which it is constructed. The facility comprises:

- a sinter plant (with four agglomerators);
- a coke plant (with eight coke batteries, seven of which are currently operational);
- a blast furnace plant, comprising two blast furnace shops and in total, five blast furnaces;
- a steelmaking plant, comprising two BOF shops (comprising two converters, each with a capacity of 300 tonnes and three converters, each with a capacity of 160 tonnes, respectively);
- nine continuous casting lines (comprising six curvilinear, one radial-curved and two vertical);
- one hot strip finishing plant; and
- three cold-rolling plants (a cold rolling plant, a non-grain oriented steel plant and a grain-oriented steel plant).

The following table shows the capacity and the capacity utilization rate of each of our principal production units as at and for the year ended December 31, 2004 and the nine months ended September 30, 2005.

Production Area	Year ended December 31, 2004			Nine months ended September 30, 2005		
	Capacity at December 31, 2004	Output	Capacity Utilization Rate ⁽¹⁾	Capacity at September 30, 2005 ⁽²⁾	Output	Capacity Utilization Rate ⁽¹⁾
	(thousand tonnes per year)		(%)	(thousand tonnes per nine months)		(%)
Sinter plant	13,700	13,834	101.0	10,056.6	9,448.4	94.0
Coke plant	4,405	4,403	100.0	3,225.9	2,841.3	88.1
Batteries no. 2-4 ⁽²⁾	1,236	1,223	99.0	914.7	609.9	66.7
Batteries no. 5-8	3,169	3,180	100.3	2,311.2	2,231.4	96.5
Pig Iron	9,378	8,994	95.9	6,368.9	5,731.0	90.0
Blast furnace shop no. 1 ⁽³⁾	6,478	6,088	94.0	4,200.0	3,544.1	84.4
Blast furnace shop no. 2 ⁽⁴⁾	2,900	2,906	100.2	2,168.9	2,186.9	100.8
Steel ⁽⁵⁾	9,300	9,074	97.6	6,811.0	6,157.5	90.4
BOF shop no. 1	3,800	3,788	99.7	2,865.9	2,612.2	91.1
BOF shop no. 2	5,500	5,286	96.1	3,945.1	3,545.3	89.9
Rolling	8,450	8,251	97.6	6,374.7	6,011.6	94.3
Hot strip finishing plant	5,300	5,212	98.3	4,041.6	3,874.3	95.9
Cold rolling plant no. 2	130	119	91.4	106.8	95.1	89.0
Cold rolling and coating plant ⁽⁶⁾	2,350	2,269	96.5	1,716.8	1,569.4	91.4
Galvanized	390	365	93.5	276.7	253.6	91.7
Pre-painted	195	179	91.5	295.4	181.3	61.4
Cold rolling plant no. 5	670	652	97.3	509.5	472.7	92.8
Galvanized	160	159	99.1	115.9	110.2	95.1

(1) Capacity utilization is calculated as the ratio of actual production to installed capacity. Capacity at September 30, 2005 denotes capacity for nine months only.

(2) Battery no. 1 was not in operation in 2004 and the nine months ended September 30, 2005 due to renovation work. Battery no. 2 was in operation in 2004 but has been closed for renovation since January 15, 2005.

(3) Contains four blast furnaces, including blast furnace no. 5, which was not operational from March 2005 to August 2005 while we performed extended renovation work.

(4) Contains one blast furnace.

(5) Our capacity and volume of production of steel was reduced in 2005 as a result of maintenance and in response to market conditions.

(6) Capacity decrease in the first nine months of 2005 was attributable to the shortage of pickled hot rolled steel due to the shutdown of continuous pickling line no. 2 for renovation from November 2004 to July 2005.

Technical Upgrading Program

Our technical upgrading program for our steel operations in Lipetsk is a key component of our strategy. We commenced our technical upgrading program in 2000, with the objective to:

- increase the efficiency of our production process by reducing unit costs;
- increase production levels;
- improve the quality and range of our products;
- increase the production of high value-added products;
- reduce energy consumption and increase our own energy generation capacity range; and
- lessen the environmental impact of our operations.

We generally analyze the economic efficiency of each of our major investment projects under the technical upgrading program on the basis of whether that project has an internal rate of return, which exceeds its estimated weighted-average cost of capital, which we currently estimate to be 14.5%. Depending on the purpose of the investment, we may set a higher return criterion of up to 25%. We do not apply these criteria to our projects which aim to lessen the environmental impact of our operations and, in relation to other projects, we cannot assure you that we will always strictly adhere to these criteria.

We are currently nearing the end of the first phase of our technical upgrading program, covering the period from 2000 to 2005. From 2000 to 2002, we made capital expenditures of \$468 million, of which we estimate \$368 million was for the technical upgrading program and, from 2003 to 2004, we made capital expenditures of \$509 million, of which we estimate \$461 million was for the technical upgrading program. During the first nine months of 2005, we made capital expenditures of \$421 million, of which we estimate \$367 million was for the technical upgrading program, and expect to make an additional \$109 million in capital expenditures in the final quarter of 2005, of which we estimate \$71 million will be for the technical upgrading program. A portion of our capital expenditure in 2005 was allocated to the operations of our subsidiary Stoilensky GOK. See “Raw Materials and Energy—Iron ore concentrate and pellets”.

The table below shows details of the key projects of our technical upgrading program for our steel operations in Lipetsk for the years 2002 to 2005.

Year	Key Projects
2002	Construction of a closed-cycle, coke-oven gas final cooling unit in our coking division Construction of radial-curved continuous casting line no. 4 in BOF shop no. 1 Construction of a slitting line for hot-rolled coils in our strip finishing shop Installation of a unit for electric erosion texturing of rollers in our strip finishing shop Construction of an air separation station in our oxygen division
2003	Reconstruction of an RH-degasser in BOF shop no. 1 Reconstruction of reheating furnace no. 5 in our hot strip mill Construction of a cold-rolled coils preparation and inspection unit in our strip finishing shop Expansion of a co-generation plant with the installation of boiler no. 13 Completion of construction of our plant for the production of aerated concrete items
2004	Expansion of our coal concentrate ground warehouse Construction of a desulfurization station in BOF shop no. 2 Replacement of the flash butt-welding machines on continuous pickling line no. 1 and on the cold-rolling mill in our strip finishing shop Construction of a color-coating unit with color-coating line no. 2 in our strip finishing shop Construction of hydrogen station no. 3
2005	Construction of a hot dip galvanizing unit and hot dip galvanizing line no. 3 in our strip finishing shop (October 2003 to September 2005), which has been operational from November 2005 Reconstruction of coke battery no. 1 (March 2002 to November 2005) Construction of the desulfurization unit in BOF shop no. 1 (January 2004 to December 2005) Reconstruction of our water treatment units (June 2004-July 2006) Reconstruction of coke battery no. 2 (January 2005-January 2007) Reconstruction of reheating furnace no. 4 in our hot strip mill (July 2003 to March 2007) Reconstruction of the aspiration system in the casting floor of blast furnace no. 5 (April 2003 to August 2005) Reconstruction of the pickling solution regeneration section in cold strip mill no. 5 (September 2005 to December 2006) Construction of two air separation stations in our oxygen division (October 2004 to September 2007)

We have financed the first phase of our technical upgrading program primarily out of cash flows from operating activities and existing cash balances, and we plan to continue to finance the second phase of our technical upgrading program from these sources, as well as external sources of financing as appropriate.

We are in the process of formulating the second phase of our technical upgrading program, which is scheduled for the period from 2006 to 2010. We currently estimate the total cost of this second phase to be \$2,700 million, of which approximately \$1,640 million is expected to be allocated to our steel operations. We currently expect that the second phase of the program will pursue the following principal objectives for our steel operations:

- increasing crude steel capacity by 1.4 million tonnes and expanding hot rolling capacity up to 6.8 million tonnes;
- improving production quality control systems;
- increasing our cold-rolled sheet production and our production of high value-added products, including hot-dip galvanized sheets;
- reducing our unit operating costs by reducing our consumption of specific raw materials and energy, including coke, natural gas, electrical energy, particularly during the production of pig iron, steel and rolled sheet;
- increasing the capacity of our electricity generation facilities;
- achieving a balance between the production capacity of our facilities and our raw materials supply capacity;
- ensuring that our products continue to conform to international quality standards;
- completing the renovation of our plant's basic production assets; and
- continuing our program of environmental and safety improvements.

See “— Sales and Transportation of Products — Transportation of Products” and “— Raw Materials and Energy” for details of other estimated expenditure under the second phase of our technical upgrading program.

These plans are still under formulation, however, and it is possible that our actual expenditures and production output will differ, perhaps to a significant extent, from these estimates. See “Risk Factors — Risks Relating to Our Business and Industry — We will require a significant amount of cash to fund our capital investments, including our technical upgrading program. If we are unable to generate this cash through our operations or through external sources, this program may not be completed on schedule or at all”.

Environment

We regard sustainable development as one of our key objectives. In 1975, we began to develop an Environmental Management System, or EMS, in order to monitor our environmental policy. We continued to modify and expand our EMS and, in 2002, it was certified for compliance with ISO 14001 standards by the German certification agency, TÜV CERT. Our EMS was re-certified by the same agency in 2005. Our EMS monitors current Russian and international environmental regulations, in order to enable us to comply with current regulations and implement any necessary remedial actions. We seek to anticipate potential issues, and, if we conclude that action is necessary, we are generally able to implement measures to address the problem at a relatively early stage. We also regularly hire international experts and auditing firms to assist us at various stages in this process.

As a result of our EMS, we have implemented programs to reduce the impact of our operations on the environment. For example, we have reduced our atmospheric emissions from 46 kilograms per tonne of steel in 1999 to 36 kilograms per tonne of steel in the first nine months of 2005, and, during that same period, we reduced discharges of fluid industrial waste from 7 to 6 cubic meters per tonne of steel.

Our EMS is currently evaluating the potential consequences of the recent ratification by Russia of the Kyoto Protocol. We believe that it is difficult at this time to assess accurately the potential impact of the Kyoto Protocol, as the Russian government has not yet issued any specific guidance to indicate how quotas on greenhouse gas emissions will be distributed and how other requirements arising out of the protocol will be implemented in Russia. See “Risk Factors — Risks Relating to Our Business and Industry — More stringent

environmental laws and regulations or stricter enforcement of existing environmental laws and regulations in Russia may have a significant negative effect on our operating results” and “Regulatory Matters — Environmental”.

Sales and Transportation of Products

We sell our steel products through two main channels:

- to three international wholesale traders, which are unrelated parties to NLMK and are under common ownership, for onward sale to industrial customers in our overseas markets; and
- directly to primarily Russian domestic industrial customers and Russian wholesalers.

Our products are sold in over 60 countries in South-East Asia, Europe, the Middle East and North America, in addition to customers in a range of industrial sectors in Russia. In 2004, export markets accounted for 64% of our sales revenue (58% in the nine months ended September 30, 2005).

The following table shows, as percentage of our total sales revenue, the regions in which our steel products were sold for the periods indicated:

Region ⁽¹⁾	Year ended December 31,			Nine months ended September 30, 2005
	2002	2003	2004 (%)	
Russia	38.7	42.3	35.9	41.7
European Union ⁽²⁾	15.8	15.6	17.3	13.2
North America	8.6	1.9	14.5	6.1
Middle East, including Turkey	10.2	14.1	14.0	11.2
Asia and Oceania	19.8	21.6	13.8	22.6
Other regions	7.0	4.5	4.5	5.2

- (1) The regional breakdown of sales is based on the geographic location of purchasers who purchased our products from the international wholesale traders to whom we sell our products, according to information received from those wholesale traders, and/or from us. It does not reflect the geographic location of those international wholesale traders.
- (2) On May 1, 2004, ten additional countries acceded to the European Union (Hungary, Poland, the Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Malta and Cyprus). Our sales to these ten new member states of the European Union represented 3.9% of our total sales revenue to the 25 members of the European Union in 2004, compared to 5.9% in 2003. Our sales revenue for these ten countries in 2002 and 2003 in the above table is included in “Other regions”.

Sales Division and marketing

Our Sales Division is responsible for the development and implementation of our pricing, sales and marketing policies, with 443 employees in total as at September 30, 2005. Our Sales Division is divided into several departments, each of which is responsible for a designated area, including export sales, domestic sales, logistics and customs clearance and marketing. Our Sales Division includes our branch, NLMK - DV, which is located in the Far East of Russia. NLMK - DV manages relations with our customers based in that part of Russia and in China. We also have a wholesale trading unit in Lipetsk, which is responsible for sales to local wholesale customers, and a trading office in Moscow.

We base our marketing strategy on the development of close, long-term relationships with the customers for our products, including end-customers who purchase our products through international wholesale traders, by seeking to provide them with a consistent quality of product, competitive pricing and timely delivery of orders. We also seek to respond to our end-customers’ individual requirements, ranging from packing or delivery requirements to the development of new products. We conduct customer satisfaction surveys from time to time and also arrange meetings with customers to discuss our products and services and their specific requirements. Due to the specialized nature of our products, we do not conduct general advertising campaigns, although we publish our price lists in steel industry and other relevant trade journals. We also attend the major steel industry conventions to maintain and raise our profile, and our press service issues regular press releases in various publications to publicize significant developments in our business.

We sell our products primarily pursuant to sales contracts with our customers, including our international wholesale trading partners, typically based on standard terms and conditions. We typically agree to provide our

customers with an agreed quantity of products during the course of a 12-month period. We determine prices with our customers on a monthly basis in order to allow adjustments in line with our price lists, which we revise each month, although, in the case of some of our major customers, we may agree to fix prices for a period of three to six months. Our prices are established largely by references to price trends in the international steel market. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — External Factors Affecting Our Results of Operations — Demand and price for steel in the markets in which we operate”. We may in some circumstances, including, for example, for large purchase orders, offer discounted prices. Generally, we require our Russian customers to pay us in advance of the delivery of our products. We permit the international wholesale traders to whom we export our products to pay us within 60 days of delivery.

Export sales

We have long-term strategic partnerships for our export sales with three principal independent wholesale traders, Steelco, Tuscany and Moorfield, which, in 2004, purchased 43%, 30% and 17%, respectively, of our total export sales (43%, 25% and 17%, respectively, in the nine months ended September 30, 2005). Our arrangement with these three wholesale traders does not operate on an exclusive basis although, to the best of our knowledge, we have become, and currently remain, the principal customer of each international wholesale trader. In October 2004, we entered into a strategic partnership agreement with Steelco, Tuscany and Moorfield (which is scheduled to expire in December 2007), under which they agree to purchase from us in aggregate at least 70% of our total export production during the term of that agreement (40% as to Steelco, 20% as to Tuscany and 10% as to Moorfield). Under the agreement, they also provide us with market analysis, develop potential new markets for our products and cooperate with us in monitoring the requirements and feedback of our end-customers. In addition to the strategic partnership agreement, we sign specific sales contracts with each of these three wholesale traders under which we sell them an agreed volume of our products at an agreed market price, which is usually determined on a monthly basis, although prices for electrical steel products may be fixed for a period of up to six months. We typically require the wholesale traders to pay us for our steel products within 60 days of delivery. We do not determine the prices at which the wholesale traders sell the steel products that they purchase from us.

The three international wholesale traders, which are under common ownership, are unrelated parties to NLMK. These wholesale traders do not currently have any contractual relations with us or our controlling shareholder other than the strategic partnership agreement and the sale contracts for steel products. We believe that the use of the international wholesale traders allows us to access export markets at relatively low distribution costs, in return for the retention by the wholesale traders of any amount by which the purchase price paid by the end-customers of our products exceeds the purchase price that the wholesale traders paid to us for those products. We also retain the flexibility under these arrangements to continue to develop our sales strategy since we continue to maintain direct relations with the end-customers for our products, and we cooperate closely with the wholesale traders to exercise control over standards of quality and customer service and enhance our market profile. See “Risk Factors — Risks Relating to Our Business and Industry — We sell most of our exported steel products to three international wholesale traders, and any failure by these traders to satisfy their payment obligations to us, or any termination of our relationship with them, may adversely affect our business, results of operations and financial condition”. The common shareholder of the wholesale traders beneficially owns approximately 1.199% of our outstanding shares. See “Principal and Selling Shareholders — Recent Changes in our Principal Shareholders”.

The table below shows the proportion of our total export sales revenue attributable to our principal products for the periods indicated.

Product	Year ended December 31,			Nine months ended September 30, 2005
	2002	2003	2004	
Pig iron	4.2	6.6	7.8	2.6
Slabs	42.6	41.7	49.5	40.8
Hot rolled steel	18.9	16.9	15.8	17.9
Cold rolled steel	20.1	19.7	14.2	17.8
Galvanized steel	2.4	1.6	0.5	0.4
Pre-painted steel	1.3	1.8	1.3	1.4
Grain oriented steel	5.9	5.0	3.3	9.2
Non-grain oriented steel	2.8	5.6	5.9	7.0

In 2004, based on information received from the international wholesale traders to whom we sell our products, the two largest markets for our products in the European Union, as a percentage of total export sales of

our products, were Denmark (8.7%) and Italy (7.0%) (8.8% and 5.8%, respectively, in the first nine months of 2005). The principal end-customer for our products in Europe in these periods was the steel producer Dan Steel, which, in 2002, 2003 and 2004, purchased a total of 96,000 tonnes, 574,000 tonnes and 642,000 tonnes of our steel products, respectively (293,000 tonnes in the first nine months of 2005). We are currently considering whether to acquire Dan Steel, which is controlled by our controlling shareholder. Turkey was the largest market for our products in the Middle East in 2004, equivalent to 16.8% of total export sales of our products (17.8% in the first nine months of 2005). The increase of sales of our products to North America in 2004, in comparison with other markets, was largely due to the removal by the United States of certain restrictions on the import of steel. See “Regulatory Matters — Trade Barriers and Anti-Dumping Regulations”. In 2004, the three largest markets for our products in South-East Asia, as a percentage of total export sales, were Taiwan (7.6%), China (4.6%) and Thailand (4.6%) (7.8%, 10.4% and 7.9%, respectively, in the first nine months of 2005).

Domestic sales

Our domestic sales generated \$1,628 million of sales revenue, or 36% of our total sales revenue, in 2004 and \$1,422.8 million of sales revenue, or 42% of our total sales revenue, for the nine months ended September 30, 2005. We believe we enjoyed the largest market share of sales of cold-rolled coil, pre-painted steel and electrical steel in Russia in 2004, and we were the third largest supplier in Russia, in terms of volume, of hot-rolled coil and galvanized rolled coil.

The table below shows the percentage of our domestic sales revenue that we derived from each of our principal products for the periods indicated.

<u>Product</u>	<u>Year ended December 31,</u>			<u>Nine months ended September 30, 2005</u>
	<u>2002</u>	<u>2003</u>	<u>2004</u>	
Pig iron	2.2	2.1	2.5	1.0
Hot rolled steel	25.2	25.5	28.7	29.1
Cold rolled steel	29.8	32.7	27.0	24.1
Galvanized steel	14.3	12.2	9.7	9.0
Pre-painted steel	13.4	10.5	9.6	9.7
Grain oriented steel	1.4	1.4	1.3	1.4
Non-grain oriented steel	2.6	2.8	2.7	2.5

In general, we sell directly to our domestic customers through our Sales Division, without using agents or trading partners. We focus on sectors, such as the automotive industry and the consumer appliances industry, which are currently enjoying strong growth in Russia.

The following table shows, as a percentage of our total sales revenue from sales of steel products in Russia, a breakdown of our sales by industry in Russia for the periods indicated.

<u>Industry</u>	<u>Year ended December 31,</u>			<u>Nine months ended September 30, 2005</u>
	<u>2002</u>	<u>2003</u>	<u>2004</u>	
			(%)	
Wholesale and retail traders	36	41	39	39
Metallurgy and metalworks	20	12	18	13
Automotive industry	18	15	16	17
Construction	12	15	13	15
Electric and instrument engineering	2	3	3	4
Other engineering	9	10	7	8
Consumer appliances production	3	4	4	4

The automotive sector was one of our largest single customer bases in Russia in 2004 and the nine months ended September 30, 2005. Avtovaz, Russia’s largest automotive manufacturer, represented 7.1% and 5.6%, respectively, of our total volume of domestic sales in those periods.

The majority of our domestic sales are made to customers located in the European part of Russia, including the Central region, the Volga region, the North-Caucasian region and Central Black-Earth region, to which we made 37%, 17%, 10% and 9%, respectively, of our total volume of domestic sales in 2004 (33%, 15%, 10% and 8%, respectively, in the nine months ended September 30, 2005).

Transportation of products

Our relative proximity to the Baltic and Black Sea ports and our main customers in Russia, most of which are located within 1,500 kilometers of Lipetsk, helps to reduce the costs of transporting our products.

In relation to export sales, the three international wholesale traders to whom we sell our products, Steelco, Tuscany and Moorfield, typically take possession of, and take title to, the products that they purchase from us upon loading of those products into rail wagons at Lipetsk. Generally, in return for a fee which is determined by reference to market rates, we arrange transportation of these products. We are currently restructuring our transportation arrangements with the aim of providing delivery of our exported steel products on a “free on board,” or FOB, basis to the international wholesale traders. Our non-wholly owned subsidiary transportation company, LLC NTK, which we acquired in 2004, manages our relations with Russian Railroads and, in relation to our exported products, the port authorities. Utilizing LLC NTK, our specialist transportation company, allows us to benefit from LLC NTK’s industry knowledge of transportation and its logistical technology. We are currently implementing, as part of our technical upgrading program, a program of reconstruction at Novolipetsk railway junction in order to increase the maximum load capacity at those facilities.

From Lipetsk, we enjoy rail access to the Baltic and Black Sea ports, from where, in 2004, 95% of our exported products were transported by sea (94% in the nine months ended September 30, 2005). Our products are currently exported from the Baltic Sea ports (for our end-customers in Europe and North America) of Kaliningrad and, to a lesser extent, St. Petersburg, which is controlled by our controlling shareholder, and Novorossiysk, Tuapse and Port Yuzhny on the Black Sea (for our end-customers in the Middle East and South-East Asia). The remaining portion of our exported products is transported by rail, mainly to customers in other CIS countries.

For domestic sales, title to the products normally transfers upon loading of products into railway wagons at Lipetsk. We deliver substantially all of our domestic products by rail. Generally, in return for a fee which is determined by reference to market rates, we arrange transportation of these products. We have convenient rail access to the major steel consuming regions located in the center of the European part of Russia and the Volga region.

In order to secure more reliable access to port operations for our products and, in anticipation of the change to our delivery arrangements with our international wholesale trading partners to a FOB basis, in accordance with our policy of vertical integration, we acquired a controlling interest in the principal operator of the Black Sea port of Tuapse, Russia’s fifth largest port, in 2004. We expect to transport an increasing proportion of the Black Sea exports of our traders through Tuapse, from where, in the nine months ended September 30, 2005, 1.1 million tonnes of our steel products were exported. We currently estimate that, as part of the second phase of our technical upgrading program, we will allocate approximately \$60 million to the development of our port operations at Tuapse. Plans relating to the development of the Tuapse port are still being formulated, and it is possible that actual expenditures will differ, even to a significant degree, from these estimates.

Raw Materials and Energy

A significant objective of our corporate strategy is resource independence. We have pursued vertical integration opportunities to enable us to secure internal sourcing of our raw material needs. Together with KMA Ruda, Stoilensky GOK, following its acquisition by us in 2004, provided us with substantially all of our iron ore concentrate requirements in 2004 and the nine months ended September 30, 2005. In August 2005, we acquired a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. Based on our current estimates, we expect this deposit to be operational in 2008 and to provide approximately 50% of our coking coal requirements from 2009. We also internally supply other raw material and energy requirements, including, in the nine months ended September 30, 2005, producing 35% of our steel segment’s electricity needs.

The principal raw materials which we use to produce steel include iron ore concentrate, pellets, coking coal, limestone and dolomite, non-ferrous metal and ferro-alloys and scrap metal. Our production operations also require water, gas, electricity, heat power and ancillary raw materials.

Almost all of the raw materials that we require for our operations are provided by suppliers located in Russia and, to a lesser extent, Ukraine and Kazakhstan. In formulating our purchase policy, we concentrate on the price and, through our Technical Control Division, the quality of our raw materials. For external suppliers outside of our group, we generally select our suppliers through a competitive tender process and then seek to establish long-term relationships with them. Generally, we sign our supply contracts for a term of one year, although some of these contracts may be terminated on up to sixty days’ notice, and the prices of the raw

materials supplied by us are determined on a monthly basis. We generally pay for our supplies of raw materials following delivery, although our contract arrangements typically provide for price adjustments depending on the quality of the delivered product.

Iron ore concentrate and pellets

In 2004, we purchased a total of approximately 13.8 million tonnes of iron ore concentrate, sinter ore and pellets (8.9 million tonnes in the nine months ended September 30, 2005).

Our non-wholly owned subsidiary, Stoilensky GOK, which we acquired in 2004, supplied approximately 84.8% of our iron ore concentrate requirements in 2004 (90.0% in the nine months ended September 30, 2005). We decided to purchase the remainder of our requirements in 2004 and the first nine months of 2005 from KMA Ruda, in which we currently hold a 32.9% stake, and Lebedinsky GOK as a result of trends in the market prices for iron ore in those periods, although the total iron ore concentrate and sinter ore production of Stoilensky GOK exceeded our internal requirements in those periods. We sold approximately 14% of the total production of iron ore concentrate of Stoilensky GOK in the first nine months of 2005 to third parties. The table below shows the raw materials supplied by Stoilensky GOK and KMA Ruda for the periods indicated.

	Fe. %	Year ended December 31,			Nine months ended September 30, 2005
		2002	2003	2004	
		(thousands of tonnes, except for Fe. %)			
Sinter ore	52.09	510.8	519.3	652.6	293.6
Iron ore concentrate	N/A	10,300.3	10,561.7	10,923.1	7,675.8
Stoilensky GOK	66.39	6,501.7	6,393.5	9,476.5	6,905.1
KMA Ruda	66.07	1,448.7	1,801.7	691.2	477.5
Other	N/A	2,349.9	2,366.5	755.4	293.2
Pellets	N/A	1,479.0	2,033.0	2,207.7	893.1
Blast furnace ore	41.46	23.4	35.7	40.0	20.0
Total	N/A	12,315.5	13,149.7	13,823.4	8,882.5

Stoilensky GOK is a conventional open-pit operation. Following a drilling and blasting stage, ore is hauled via rail to the concentrator plant. At the concentrator, the ore is crushed and ground to a fine particle size, then separated into an iron concentrate slurry and a waste stream using wet magnetic separators. The iron ore is upgraded from approximately 34% iron to a concentrate that contains approximately 66% iron. The current production facilities comprise an iron ore concentrate plant and a sinter ore plant.

In 2004 and the first nine months of 2005, Stoilensky GOK was the third largest iron ore producer in Russia in terms of volume. In 2004, Stoilensky GOK produced 11.0 million tonnes of ore concentrate (compared to KMA Ruda's 1.8 million tonnes) and 1.6 million tonnes of sinter ore, representing 14.6% of the total Russian iron ore production in that year. In the first nine months of 2005, Stoilensky GOK produced 8.0 million tonnes of iron ore concentrate (compared to KMA Ruda's 1.4 million tonnes) and 0.8 million tonnes of sinter ore. We expect that total volume of production of Stoilensky GOK for 2005 will be lower than in 2004, largely due to a decrease in the quality of crude ore being processed and the reconstruction of production facilities. We currently estimate that, in 2006, Stoilensky GOK will produce 11.3 million tonnes of iron ore concentrate and 1.3 million tonnes of sinter ore. Actual production levels will depend on several factors, including our ability to implement our capital expenditure program, and may vary significantly from these estimates.

In 2004, Stoilensky GOK's production costs before depreciation were \$10.6 per tonne of iron ore concentrate and \$4.1 per tonne of sinter ore. In the first nine months of 2005, its production costs before depreciation were \$14.6 per tonne of iron ore concentrate and \$6.5 per tonne of sinter ore. This increase in production costs was largely attributable to an increase in the prices of raw materials and energy that we purchased, increases in payroll costs and a decrease in production due to repair work. In the first nine months of 2005, we made, as part of our capital expenditure program, capital expenditures of \$64 million in Stoilensky GOK, of which we estimate \$29 million was allocated to expansion and upgrading, and, in the fourth quarter of 2005, we expect to invest a total of approximately \$15 million in Stoilensky GOK, of which we estimate \$13 million will be allocated to expansion and upgrading. From 2006 through 2010, we currently plan to invest a total of \$570 million in Stoilensky GOK expansion and upgrading of production facilities as part of the second phase of our technical upgrading program. This investment program will include replacing existing equipment, investing in the fourth section of the processing factory and constructing a new pelletizing plant with a planned annual capacity of three million tonnes, which, based on current estimates, would make us self-sufficient in pellets. These plans are still under formulation, however, and it is possible that our actual expenditures and production output will differ, perhaps to a significant extent, from these estimates.

As at September 30, 2005, Stoilensky GOK employed approximately 5,900 personnel, of whom approximately 96% were employed in production-related functions.

In 2004, we purchased approximately 2.2 million tonnes of pellets (0.9 million tonnes in the first nine months of 2005). All of our pellet requirements were sourced externally from Russian suppliers, including Lebedinsky GOK, in which we acquired a 12% stake in 2000. We are currently considering whether to divest our stake in Lebedinsky GOK. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions and Disposals”.

Mineral reserves of Stoilensky GOK

In accordance with Soviet methodology, which remains common practice in Russia, but differs in many respects from the methodology commonly used for open pit mines located elsewhere, the calculation of the mineral reserves Stoilensky GOK is licensed to extract is based on a cross-sectional estimate made in 2002, from which tonnage of reserves has been deducted. As a result, the reserves Stoilensky GOK is licensed to extract do not reflect any adjustments in the grade of the remaining reserve to reflect the grade of ore mined since 2002. Although Stoilensky GOK makes periodic re-estimations of the grade of the remaining reserves, the estimated tonnage and grade forecast is assumed to hold for subsequent years, which could result in inaccuracies.

We retained the international engineering firm, IMC E&E Consulting Ltd., or IMC, to conduct an independent review of the mineral reserves Stoilensky GOK is licensed to extract. The results of that review for Stoilensky GOK as at January 1, 2005 are summarized in the following table.

Ore type	Category ⁽¹⁾	Pit Base	Tonnes	Fe (total) % ⁽²⁾	Fe (magnetic) % ⁽²⁾
High Grade	B	-250m level	27,216,953	53.24	
Primary	B	-250m level	661,867,600		
Primary	C1	-250m level	776,975,080		
Total Primary	B+C1	250m level	1,438,842,680	34.20	27.68
High Grade	B+C1	-500m level	58,683,953	54.71	
Primary	B+C1	-500m level	4,962,825,180	34.72	28.45

(1) Russian categories B and C1 are generally regarded as being equivalent to Proved Reserves and Probable Reserves, respectively, in most Western resource classification systems.

(2) Not available for all categories of ore.

Although insufficient information is available to determine what proportion of these mineral reserves is economically recoverable, IMC concluded that the reserve classifications of Stoilensky GOK are prudent and cautious. On the basis of the Australasian Code for Reporting of Mineral Resources and Ore Reserves, or the JORC Code, which is increasingly used as an international industry standard, the deposits that Stoilensky GOK is licensed to mine have 1,438 million tonnes of reserves of primary ore to the –250m level. This is sufficient to sustain production at current levels for more than 60 years. As Stoilensky GOK operates on the basis of long-term licenses to extract mineral resources, in particular, a principal mining license which is due to expire on January 1, 2016, and does not have any property rights in these resources, these reserves may not be directly comparable to the reserves of the competitors of Stoilensky GOK, who may have direct ownership of the mineral resources estimated in their reserves. The principal mining license requires that Stoilensky GOK submit to the licensing authorities each year information on its compliance with the license terms and, in the event of non-compliance and a failure by Stoilensky GOK to remedy those breaches, the license may be terminated, suspended or limited upon three months’ notice. See “Risk Factors — Risks Relating to Our Business and Industry — Our business could be adversely affected if we fail to obtain, maintain or renew necessary licenses, including subsoil licenses, and permits or fail to comply with the terms of our licenses and permits”.

Coal and coke

We purchased approximately 5.5 million tonnes of coal in each of 2002, 2003 and 2004, respectively (3.8 million tonnes in the nine months ended September 30, 2005). We purchased all our coal requirements from Russian suppliers in the Kuznetsky, Vorkutinsky and Yuzhno-Yakutsky coal basins. The majority of our supplies, comprising approximately 73% of our total requirements in the first nine months of 2005, comes from the Kuznetsky basin. We have long-standing relationships with our key coal suppliers.

Although the reserves of coal in Siberia are among the largest in the world, the quality of some of the supplies which are available is variable. In accordance with our policy of vertical integration to secure our own supplies of the raw materials which we require, in August 2005, we acquired a license for the exploration and development of the Zhernovskoe-1 coal deposit in the Kemerovo region, Siberia. This license expires in 2025 and requires us to undertake exploration and development works at this deposit. According to information published by the Federal Agency for Subsoil Use at the time of the announcement of the auction, which we have not verified, the Zhernovskoe-1 deposit has estimated reserves of coking coal of 240 million tonnes (B+C1 category). We currently estimate that, from 2006 to 2010, we will invest approximately \$430 million in the development of the Zhernovskoe-1 coal deposit as part of the second phase of our technical upgrading program. We currently expect that the Zhernovskoe-1 deposit will be operational in 2008. Based on our current estimates, we expect that the deposit will have an initial annual capacity of at least three million tonnes of coking coal by 2009 and will provide approximately 50% of our coking coal requirements. We currently estimate that the annual capacity of the Zhernovskoe-1 deposit will increase to six million tonnes of coking coal from 2010, and, as a result of our requirements for grades of coking coal that are not available at this deposit, we expect to sell approximately half of its output to third parties. These plans are still under formulation, however, and it is possible that our actual expenditures and production output will differ, perhaps to a significant extent, from these estimates. We may consider further acquisitions of our own coal reserves, including through participation in the auction of licenses to exploit deposits, or alliances with coal producers.

We currently produce approximately 85% to 90% of our total coke requirements from our own coke batteries. We purchase the remainder of our coke requirements (approximately 0.2 million tonnes in the first nine months of 2005) from three Russian suppliers and one Ukrainian supplier, each of whom supplies an approximately equal amount. We plan to be substantially self-sufficient in coke production following the refurbishment of our coke batteries. See “—Technical Upgrading Program” above. We are currently in talks to acquire more than 90% of the shares of a Russian coke producer. As part of this transaction, we may also acquire a number of coal producing companies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions and Disposals”.

Scrap

In 2004, we processed approximately 2.3 million tonnes of scrap, of which we purchased 1.4 million tonnes from third parties and sourced internally 0.9 million tonnes. In the first nine months of 2005, we processed approximately 1.6 million tonnes of scrap, of which we purchased 0.9 million tonnes. We have our own scrap processing facilities that allow us to utilize a wide range of sizes of steel scrap. These facilities include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. We source scrap both externally from companies which collect scrap metal and internally, by utilizing amortization scrap and production waste. We use scrap in all steel melting processes. The average proportion of scrap metal in the metal charge used in the smelting process is approximately 22%.

Other raw materials

We obtain limestone from our non-wholly owned subsidiary, OJSC Stagdok, whose mines are located close to Lipetsk. The estimated reserves of the deposits were 178 million tonnes as at September 30, 2005, although approximately 28% of those reserves are not currently accessible due to their location under residential property. OJSC Stagdok produced 3.15 million tonnes of limestone in 2004, of which we consumed 2.6 million tonnes. In the first nine months of 2005, OJSC Stagdok produced 2.2 million tonnes of limestone, of which we consumed 1.7 million tonnes. Assuming that the current levels of production are maintained and that our reserve estimates are accurate, we estimate that these reserves should be sufficient to meet our limestone needs for approximately 30 years. OJSC Stagdok mines the deposit under a license which is scheduled to expire in 2028.

We obtain metallurgical dolomite from our subsidiary OJSC Dolomite, whose operations are located in Dankov, close to our operations in Lipetsk. OJSC Dolomite produced 2.1 million tonnes of dolomite in 2004 and 1.4 million tonnes in the first nine months of 2005, of which we consumed approximately 57% in both periods. As of September 30, 2005, the estimated dolomite reserves of the deposits for which OJSC Dolomite holds licenses were 401 million tonnes. Assuming that the current levels of production are maintained and that our reserve estimates are accurate, we estimate that the reserves of OJSC Dolomite should be sufficient to meet our limestone needs for approximately 120 years. OJSC Dolomite mines that deposit under a license which is scheduled to expire in 2029.

We also require a wide range of ferro-alloys for our steelmaking process. We purchase most of our ferro-alloy requirements from third party suppliers, generally under annual contracts. We also require a range of

non-ferrous metals, including zinc, manganese and aluminium, for use primarily in our production of higher value-added steel products, including, for example, galvanized sheet.

Energy

The steel making process which we operate requires significant amounts of electricity and heat energy to power the blast furnaces, steel melting and rolling facilities. During 2004, we consumed 5,483 million kilowatt-hours of power energy (3,977 million kilowatt hours in the first nine months of 2005).

Our on-site power stations provided approximately 37% of our electricity requirements in 2004, (approximately 35% in the nine months ended September 30, 2005). These power stations generate electricity by burning natural gas and waste by-products, including blast-furnace gas and coke oven gas. By recycling waste by-products, we can make significant cost savings. We do not use coal to generate electricity.

We purchased approximately 63% of our electricity needs in 2004 from OJSC Lipetskenergo, a subsidiary of RAO Unified Energy Systems of Russia, the national power grid monopoly. We currently hold a 14.1% stake in OJSC Lipetskenergo. In the first nine months of 2005, we purchased approximately 65% of our electricity needs from OJSC Lipetsk Energy Sale Company, also a subsidiary of RAO Unified Energy Systems of Russia. Our current supply agreement with OJSC Lipetsk Energy Sale Company expires on January 1, 2006, although the agreement may be extended on an annual basis. We are currently negotiating the renewal of this agreement. Our supply agreement employs a dual-tariff structure, under which we pay for both available capacity and actual consumption of electricity. These tariffs are currently determined by the Regional Energy Commission of the Lipetsk region.

The cost of electricity which we produce is less than that of electricity purchased from third party suppliers. Prices for electricity in the Russian market have continued to increase and we expect further increases as a result of the significant capital expenditure requirements of the Russian electricity industry and the restructuring of that industry. See “Risk Factors — Risks Relating to Our Business and Industry — We are dependent on government-controlled companies for a substantial portion of our energy needs. Increased energy costs or an interruption in our electricity or natural gas supply could materially adversely affect our business and results of operations”. We are planning to increase our self-sufficiency in electricity generation. See “— Technical Upgrading Program” above.

To generate heat, we use coking and blast furnace gases, and, during the winter period, natural gas. We use natural gas as a heat source in our reheating lines and power plants. We also use natural gas in our blast furnaces. We purchase all our natural gas supplies, including those which we use in our electricity generation plants, from Gazprom, the national gas supplier of Russia. In 2004, we purchased 1.7 billion cubic meters of natural gas (1.3 billion cubic meters in the first nine months of 2005).

Transportation of raw materials

In 2004, we received by rail substantially all our raw materials. Our principal supplier of rail transportation services is the state-owned rail monopoly, Russian Railways. Our subsidiary LLC NTK arranges on our behalf the transportation of our supplies of raw materials and, in this capacity, manages our relations with Russian Railways. See “— Sales and Transportation of Products” above.

Our suppliers of coal are located in Siberia at the Kuznetsky, Vorkutinsky and Yuzhno-Yakutsky coal basins, which are a great distance from our steel production operations in Lipetsk. The requirement to transport our coal supplies over such a distance increases both our costs of coal and the risk of disruption to these supplies. See “Risk Factors — Risks Relating to Our Business and Industry — Increased transportation costs or a disruption in transportation could significantly affect our business and financial results”. Our iron ore suppliers are located within approximately 350 kilometers of Lipetsk and, therefore, our unit costs of transporting iron ore are significantly less than our unit costs of transporting coal.

In order to reduce the risks related to a failure by Russian Railroads to deliver rolling stock, we have been implementing a program of acquiring or leasing our own rolling stock. In the nine months ended September 30, 2005, our own rolling stock transported substantially all of our supplies of pellets, dolomite and lime, as well as 37% of our iron ore concentrate supplies.

Research and Development

We maintain specialist departments to carry out basic research and applied technology development activities, primarily focusing on the improvement of existing technologies and products in accordance with our

end customers' requirements, new product and equipment development and increasing production efficiency by reducing costs through changes in working practices and operational methods. Our research program is coordinated by our Engineering Center, our Technical Upgrading Center and our Resource Savings Center, which, as at September 30, 2005, employed, in aggregate, 296 researchers. We also contract with third-party consultants from the metallurgical industry to conduct reviews of our operations and feasibility studies. We have developed a working culture where our employees are encouraged to contribute ideas concerning the development of our products or production processes.

As a result of these programs and policies, in 2004, we introduced 280 modifications to our production processes and obtained 66 patents for inventions and 4 patents for design. See "— Our Steel Products" above. We spent approximately \$0.5 million, \$0.7 million and \$0.5 million on research and development in 2002, 2003 and 2004, respectively (\$0.5 million in the nine months ended September 30, 2005).

Industry Association Membership

In 2005, we became a member of the International Iron and Steel Institute, or IISI. The IISI is a non-profit research organization which aims to serve as a world forum for the international steel industry. Founded in 1967, the IISI currently has a membership from more than 50 countries, comprising approximately 115 steel producing companies, including substantially all of the world's major steel producers, and over 60 national and regional steel federations and steel research organizations.

Employees and Health and Safety

Our management considers our employees to be one of the most important assets of the organization and has implemented a personnel policy which focuses on:

- developing motivation schemes to increase labor productivity;
- ensuring a high level of industrial safety and appropriate working conditions;
- optimizing staff numbers and responsibilities to increase production efficiency; and
- increasing the level of employee skills.

Our relations with our employees, including working hours, health and safety, disputes, termination of employment, vacations and benefits, are governed, in accordance with Russian labor law, by a collective bargaining agreement, which was approved in May 2002. The collective bargaining agreement was renewed on substantially the same terms in June 2005 for a term of two years.

The number of employees of our steel operations at Lipetsk totaled approximately 46,300, 41,000 and 39,400 as at December 31, 2002, 2003 and 2004, respectively, and approximately 38,800 as at September 30, 2005. The reduction in employees from 2002 to September 30, 2005 largely resulted from our decision to introduce substantial restrictions on hiring new employees, although we also offered some voluntary redundancy settlements. As at September 30, 2005, approximately 36,300 personnel, or 91.7% of our total personnel, were employed in steel production operations. As at September 30, 2005, our personnel at Lipetsk comprised workers (75.6%), specialists (13.5%), management (9.5%) and administrative staff (1.4%).

In addition, as at September 30, 2005, we employed 7,625 personnel in total in our mining operations, including 5,904 at Stoilensky GOK, 984 at OJSC Stagdok and 737 at OJSC Dolomite. As at September 30, 2005, we also employed 1,702 personnel at OJSC TMTP and 151 personnel at LLC NTK.

From 2001 to 2004, our productivity per employee increased, in terms of output of steel per employee in our steel operations, from 162 tonnes in 2001 to 231 tonnes in 2004, an increase of 43%. In the nine months ended September 30, 2005, our productivity per employee decreased, on an annualized basis, to 218 tonnes of steel per employee in our steel operations, largely as a result of reduced production due to plant maintenance that we extended in response to the decline in steel prices in the second and third quarters of 2005.

Our staff remuneration structure consists of a base component, calculated according to the qualifications and experience of the employee, and a performance-related bonus. We increased wage levels at an annual rate of between 20% and 25%, between 2001 and 2005. The remuneration package that we offer our employees also includes mandatory and voluntary medical insurance, dental care and membership of a non-state pension fund scheme. See "— Pension Fund" below.

We regard the professional development of our staff as a key area of our human resources policy and employ a system of staff mentorship. We organize training programs for our personnel with our qualified team of instructors at our own training facilities, our scientific-research institute and state educational institutions. In addition, we have agreements with Lipetsk State Technical University to train engineers and specialists for us in accordance with our requirements and we also provide scholarships to selected students.

In 2004, we invested approximately \$11.3 million in our industrial health and safety program, an increase of approximately \$8.1 million from 2003, and, in the nine months ended September 30, 2005, we invested \$3.8 million in that program. We have reduced the number of industrial accidents at our facilities from 70 in 1999 to 26 in 2004 (27 in the first nine months of 2005), of which the number of industrial accidents which resulted in serious injury or death was 8 in 2004 (5 in the first nine months of 2005). As a result of this program, we believe our safety record has been better than the average reported in the Russian steel industry from 2002 through the first nine months of 2005.

We also construct approximately 30,000 square meters of apartments each year for our employees. See also “Social Responsibility” below.

Pension Fund

We have established our non-state pension fund program, Sotsialnoye Razvitie NPF, in cooperation with various other organizations and enterprises. As of September 30, 2005, 29,086 of our employees were members of the pension fund.

In 2004 and in the nine months ended September 30, 2005, we paid \$2.6 million and \$2.1 million, respectively, into the fund. As of September 30, 2005, the fund’s pension reserves were \$34.2 million.

Our Other Businesses

In 1994, we acquired a controlling interest in the insurance company, LLC LIS Chance, which is based in Lipetsk. This company provides various types of insurance, including property, casualty, life, medical, vehicle and civil liability, both to third parties and to ourselves. See “— Insurance” below.

In 2000, we acquired a controlling interest in the commercial bank, OJSC Lipetskcombank, which is based in Lipetsk. The bank provides general banking services for corporate and retail customers in accordance with its general license from the CBR, a license for foreign currency operations and a license for brokerage activity. As at September 30, 2005, we had deposits and accounts of approximately \$68.1 million with OJSC Lipetskcombank and, in 2003 and 2004, we used this bank to invest excess cash generated by our operating activities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures about Market Risk — Equity Price Risk”.

In addition, the NLMK group includes a number of other businesses, including an electricity supply company for the town of Lipetsk, agricultural producers, catering enterprises and a sports club, none of which, individually or in the aggregate, materially affect our financial condition or results of operations. We currently have no plans to expand significantly any of our non-core businesses.

Social Responsibility

In 2004, according to published figures of the Lipetsk city and regional authorities, our tax payments contributed 67% of the total tax revenues of the budget of the city of Lipetsk and 58% of the total tax revenues of the consolidated budget of the Lipetsk region. In the nine months ended September 30, 2005, our tax payments contributed 47% of the total budget of the city of Lipetsk and 57% of the consolidated budget of the Lipetsk region.

We have implemented a social responsibility program, under which we provide medical, health and recreational services to the community of Lipetsk. As part of these services, we operate a medical complex for use both by our employees and the other residents of the Lipetsk region. In 2004, we spent approximately \$2.1 million on the provision of healthcare services (\$2.0 million in the first nine months of 2005), in addition to our tax payments to municipal and state authorities.

Insurance

The insurance industry is not yet well developed in Russia, and many forms of insurance protection that are common in more economically developed countries are not yet available in Russia on comparable terms,

including coverage for business interruption. At present, we insure the main plant items at our steel production operations in Lipetsk against a range of risks, including fire, explosion and acts of nature, and we also insure against machinery and equipment breakdown. We insure this property for the cost of reconstruction. We maintain this insurance with our subsidiary, LLC LIS Chance and substantially all of this insurance is currently re-insured with international insurers, including Swiss Re, AIG and Munich Re, as well as the Russian insurer, OJSE SK Progress Garant.

We also maintain, in accordance with the requirements of Russian law, insurance against third-party liability for injuries and losses, including environmental damage, caused by dangerous substances and accidents on our production sites. In 2004, we paid, in total, premiums of approximately \$5.6 million (\$4.3 million in the first nine months of 2005), of which approximately \$3.1 million (\$2.1 million in the first nine months of 2005) was paid, directly or through reinsurance premiums, to third party insurers.

We do not currently have business interruption insurance, although we are developing plans to acquire insurance against this risk. We are also currently finalizing arrangements with the Russian subsidiary of an international insurer and international re-insurers for the provision of insurance for our directors and officers.

See “Risk Factors — Risks Relating to Our Business and Industry — We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in a substantial property loss and inability to rebuild in a timely manner or at all”.

Litigation

We have been and continue to be the subject of legal proceedings and adjudications from time to time, as well as regulatory and administrative investigations, enquiries and actions regarding tax, labor, anti-dumping and other matters, which, in the past, have resulted in damage awards, settlements or administrative sanctions, including fines.

On November 27, 2005, after we publicly announced our intention to float, reports appeared in the press indicating that David and Simon Reuben may commence legal proceedings relating to shares in NLMK. While we are not aware of any such legal proceedings having been commenced as of the date hereof, to the extent such proceedings are commenced in the future, we are not aware of any legal basis for a claim against us or our controlling shareholder that may be brought by those persons.

We are not, nor have we been, involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this prospectus that may have, or have had in the recent past, significant effects on our financial position or profitability nor are we aware that any such proceedings are pending or threatened.

Due to uncertainties in the legal and regulatory process, we cannot assure you that we will not become subject to proceedings or adjudications in the future that could have a material adverse effect on us, our results of operations or our financial condition. See “Risk Factors — Risks Relating to the Russian Federation — Legal Risks and Uncertainties — Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of the Shares and GDSs” and “Risk Factors — Risks Relating to the Russian Federation — Legal Risks and Uncertainties — Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions, which could materially adversely affect our business, financial condition, results of operations and prospects”.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters designated by law and our charter as being the exclusive responsibility of the General Meeting of Shareholders. For a more detailed discussion of the responsibilities of the Board of Directors, see “Description of Share Capital and Certain Requirements of Russian Legislation”.

Our Board of Directors currently consists of nine members. Four members of our Board of Directors, including Mr. Randolph Reynolds, a U.S. citizen, are independent directors in accordance with the criteria set out in the Joint Stock Companies Law and our Corporate Governance Code, which differ in certain respects from the criteria for independent directors that are set out in the U.K. Combined Code. We refer to those directors as independent directors and we intend to maintain at least three such independent directors on our Board following the offering.

The table below shows the current members of our Board of Directors. All of our current directors were elected on May 20, 2005 and their terms expire on the date of our next annual shareholders’ meeting. The business address for all our directors is Pl. Metallurgov 2, Lipetsk 398040, Russian Federation.

Name	Year of Birth	Position
Mr. Vladimir Lisin	1956	Chairman of the Board of Directors and head of Strategic Planning Committee
Mr. Vladimir Skorokhodov	1951	Director and Deputy Chairman
Mr. Oleg Bagrin	1974	Director
Mr. Igor Fedorov	1966	Director
Mr. Nikolai Gagarin	1950	Director
Mr. Dmitriy Gindin	1946	Director (Independent) and acting head of Remuneration, Nomination and Social Policy Committee
Mr. Oleg Kiselyev ⁽¹⁾	1953	Director (Independent)
Mr. Nikolai Lyakishev	1929	Director (Independent)
Mr. Randolph Reynolds	1941	Director (Independent) and head of Audit Committee

(1) Mr. Kiselyev submitted his resignation from the Board of Directors on November 23, 2005.

Mr. Vladimir Lisin has been a member of our Board of Directors since 1996 and has been the Chairman of our Board of Directors since 1998. Since 2001, Mr. Lisin has been the chairman of the board of directors of LLC Rumelco, one of our shareholders, having served as its general director in 2000. He was a member of the board of directors of OJSC Zenit Bank from 2001 to 2003 and a member of the board of directors of OJSC GMK Norilsk Nickel from 2002 to 2003. Since 2003, Mr. Lisin has been a member of the board of directors of CJSC Chernomorneftegaz. Mr. Lisin is a bureau member of the Russian Union of Industrialists and Entrepreneurs (Employers) and the head of its Lipetsk branch. Since June 2005, he has been the chairman of the supervisory board of the non-profit partnership Russian Steel Consortium, previously having served as its president. He holds various patents in metallurgy processes and has published numerous articles on, economics metallurgy and ecology. Mr. Lisin holds various positions in a number of sports organizations. Mr. Lisin is a professor of the Academy of National Economy (since 1999) and a director on the board of the International Iron and Steel Institute. He is a holder of the Council of Ministers’ award in the science and engineering field, the Honorary Metallurgist of Russia, the Knight of the Order of Honor of the Russian Federation and the Knight of Order of Sergiy Radonezhsky. Mr. Lisin graduated from the Siberian Metallurgical Institute in 1979 and, in 1992, obtained a degree in economics and management at the Academy of National Economy under the Government of Russia.

Mr. Vladimir Skorokhodov has been a member of our Board of Directors since 1996. Since 2003, Mr. Skorokhodov has been the Deputy Chairman of our Board of Directors and since 1999, a Deputy General Director of Rumelco Ltd. Since 2003, Mr. Skorokhodov has been a professor at the Lipetsk State Technical University. Mr. Skorokhodov graduated as a metallurgical engineer from the Moscow State Steel and Alloys Institute.

Mr. Oleg Bagrin has been a member of our Board of Directors since 2004. Mr. Bagrin worked in AKB Autobank from 2000 to 2002 as the Head of the Treasury and, from 2002 to 2003, as the Deputy Chairman. From 2003 to

2005, Mr. Bagrin was the Director for Financial Asset Management of LLC Rumelco. He has been the General Director of CJSC IC Libra Capital since 2005. Mr. Bagrin has a graduate and post-graduate degree in economics from the State Management University and a degree in business administration from the University of Cambridge.

Mr. Igor Fedorov has been a member of our Board of Directors since 2002. Mr. Fedorov has been an advocate and partner with the Advocate Bureau Reznik, Gagarin, Abushakhmin and Partners since 2000. Mr. Fedorov has been a Chairman of the board of directors of OJSC Sea Port of St. Petersburg since November 2004. Mr. Fedorov graduated in law from Moscow State University.

Mr. Nikolai Gagarin has been a member of our Board of Directors since 2001. Since 2003, Mr. Gagarin has been Chairman of the Council of the Advocate Bureau Reznik, Gagarin, Abushakhmin and Partners having served as its Managing Partner from 1999 to 2003. Mr. Gagarin has been a member of the board of directors of CJSC Chernomorneftegaz (since 2002) and its Chairman (since 2003). Since 2004, he has been a member and the Chairman of the board of directors of OJSC TMTP. Mr. Gagarin graduated in law from Moscow State University.

Mr. Dmitriy Gindin has been a member of our Board of Directors since 2004 and was the President of LLC Management Holding Company Metalloinvest from 2001 to 2005. Mr. Gindin has been the President of the association Agroindustrial Corporation Stoylenskaya Niva since 2004 and a General Director of OJSC Moscow Plant Sapfir since 1997. Mr. Gindin graduated as a metallurgical engineer from the Moscow State Steel and Alloys Institute.

Mr. Oleg Kiselyev has been a member of our Board of Directors since 2004. Since 2001, Mr. Kiselyev has been a director of Mosexpo-Metall LLC. Mr. Kiselyev was the General Director of CJSC Shestoi Kanal in 2002 and the non-commercial partnership Media Socium from 2002 to 2004. From June 2004 to October 2005 Mr. Kiselyev was the President, and a member of the management board and board of directors, of Renaissance Holdings Management Limited, and he was also a member of the board of directors of Renaissance Capital Holdings Limited in that period. From February to October 2005, Mr. Kiselyev was an Investment Counsel and a director of Renaissance Capital — Financial Consultant LLC. Mr. Kiselyev graduated as a metallurgical engineer from the Moscow State Steel and Alloys Institute. On November 23, 2005, Mr. Kiselyev submitted to the Board of Directors his letter of resignation, in which he relinquished his duties as a Board member with immediate effect. As a matter of Russian corporate law, he will remain a director and his termination as director will become effective only when the whole Board of Directors is re-elected during the next annual shareholders meeting.

Mr. Nikolai Lyakishev has been a member of our Board of Directors since 2005. From 1987 to 2004, Mr. Lyakishev was the director of the Baikov's Institute of Metallurgy and Materials Science of the Russian Academy of Sciences, where he currently holds the post of research manager. Mr. Lyakishev graduated as a metallurgical engineer and has a doctorate in technical sciences from the Moscow State Steel and Alloys Institute.

Mr. Randolph Reynolds has been a member of our Board of Directors since 2005. Mr. Reynolds was Vice-Chairman and Executive Officer of Reynolds Metal Company and a member of its board of directors until 2000. From 2000 to 2002, Mr. Reynolds was the President and owner of Industrial Advisors, Inc. Since 2002, he has been the President and owner of Industrial Advisors Services, Inc. and Reynolds Development. Mr. Reynolds is a member of the board of directors of the American Red Cross — Greater Richmond Chapter, USA, a member of the board of directors of the Carpenter Company, and the Chairman of the Defense Enterprise Fund. Mr. Reynolds graduated with a degree in business from Bellarmine College, Kentucky, United States.

Management Board

The Management Board is our collective executive body and is appointed by the Board of Directors. The Management Board is principally responsible for the day-to-day management of our business. The General Director exercises executive authority over all activities, except for issues assigned to the exclusive competence of the General Meeting of Shareholders or the Board of Directors.

The table below shows the current members of our Management Board. The business address for all members of the Management Board is Ploshad Metallurgov, 2, Lipetsk 398040, Russian Federation.

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Mr. Vladimir Nastich	1953	Chairman of the Management Board — General Director
Ms. Galina Aglyamova	1961	Deputy General Director for Economics and Finance
Mr. Igor Anisimov	1965	Director for Purchasing
Mr. Pavel Gorodilov	1957	Director for Sales
Mr. Anatoly Koryshev	1944	Director of the Repair Plant
Mr. Alexander Kravchenko	1955	Director for Legal Issues
Mr. Viktor Khripunkov	1960	Director for Security
Mr. Sergey Melnik	1961	Director for Human Resources and Administration
Mr. Sergei Perekatov	1959	Director for Construction and Building Maintenance
Mr. Sergey Rakitin	1954	Technical Director and Chief Engineer
Mr. Vladislav Smirnov	1949	Deputy General Director, Power and Energy
Mr. Alexander Sokolov	1961	Director for Accounting — Chief Accountant
Mr. Vladimir Tretyakov	1960	Director for Information Technologies
Mr. Stanislav Tsyrlin	1968	Director for Strategy and Management System
Mr. Vyacheslav Vorotnikov	1954	Director for Production

Mr. Vladimir Nastich has been a member of our Management Board since 1996. In 2004, Mr. Nastich was elected our General Director, having served as our Chief Engineer — First Deputy Director General from 2000 to 2004. From 1988 to 2000, Mr. Nastich was our Metallurgy Director and has previously held various positions since joining us after graduating in 1975. Mr. Nastich is also a member of the supervisory boards of the Charity Fund of Social Security Miloserdije and the private pension fund Sotsialnoye Razvitie NPF as well as a member of the founders' council of the Autonomous Non-Commercial Sports Organization Sports Club Lipetsky Metallurg. Mr. Nastich graduated from Donetsk Polytechnic Institute with a major in metal forming.

Ms. Galina Aglyamova has been a member of our Management Board since 2000. Since March 2005, Mrs. Aglyamova has been the Deputy General Director for Economics and Finance, having previously served as our Director for Economics and Finance (2002 to March 2005) and Director for Economics (2000 to 2002). Mrs. Aglyamova is a member of the boards of directors of OJSC Stoilensky GOK and OJSC Lipetskcombank. Mrs. Aglyamova is also a member of the presidium of the Charity Fund of Social Security Miloserdije, a member of the council of the private pension fund Sotsialnoye Razvitie NPF and a member of the founders' council of the Autonomous Non-Commercial Sports Organization Sports Club Lipetsky Metallurg. Mrs. Aglyamova graduated as an engineer-economist from the Moscow State Steel and Alloys Institute.

Mr. Igor Anisimov has been a member of our Management Board since 2001. In 2001, Mr. Anisimov was appointed our Director for Purchasing, having served as our Deputy Director for Purchasing, and Head of the Equipment and Import Purchasing Department from 1997 until 2001. Mr. Anisimov graduated in law from the Karaganda State University and qualified as an economist from the All-Russia Distance Institute of Finance and Economics.

Mr. Pavel Gorodilov has been a member of our Management Board since 1996. Since 1998, Mr. Gorodilov has been our Director for Sales. Mr. Gorodilov qualified as an engineer-system analyst from Novocherkassk Polytechnic Institute.

Mr. Anatoly Koryshev has been a member of our Management Board since 1994. Since 1993, Mr. Koryshev has served as our Director of the Repair Plant. Mr. Koryshev graduated as a mechanical engineer from Lipetsk Polytechnic Institute.

Mr. Alexander Kravchenko has been a member of our Management Board since 1996. Since 2001, Mr. Kravchenko has served as our Director for Legal Issues, having been our Head of the Legal Department from 1997 to 2001. From 2004 to August 2005, Mr. Kravchenko was the Chairman of the board of directors of OJSC North Oil and Gas Company. Mr. Kravchenko is a member of the boards of directors of OJSC Stoilensky GOK, OJSC TMTP, OJSC Bank Zenit and OJSC Lipetskcombank. Mr. Kravchenko is also a member of the presidium

of the Charity Fund of Social Security Miloserdije and a member of the council of the private pension fund Sotsialnoye Razvitie NPF. Mr. Kravchenko graduated in law from the Kharkov Legal Institute.

Mr. Viktor Khripunkov has been a member of our Management Board since 2005. Since 2000, Mr. Khripunkov has been our Director for Security. Mr. Khripunkov is a member of the founders' council of the Autonomous Non-Commercial Sports Organization Sports Club Lipetsky Metallurg. Mr. Kripunkov graduated as an engineer metallurgist from Lipetsk Metallurgical College and has a graduate (from the Saratov Legal Institute) and post-graduate degree in law.

Mr. Sergey Melnik has been a member of our Management Board since 2003. Since 2004, Mr. Melnik has been our Director for Human Resources and Administration, having previously served as our Security Division Consultant between 2003 and 2004. From 2001 to 2003, Mr. Melnik held the position of manager at LLC Vimet and, in 2001, served as a manager at LLC Larinet following completion of his military service. Mr. Melnik is also the Chairman of the presidium of the Charity Fund of Social Security Miloserdije and the Deputy Chairman of the council of the private pension fund Sotsialnoye Razvitie NPF, as well as a member of the founders' council of the Autonomous Non-Commercial Sports Organization Sports Club Lipetsky Metallurg. Mr. Melnik graduated in military and political studies from the Lvov Higher Military-Political School. Mr. Melnik is a cousin of the Chairman of our Board of Directors, Mr. Vladimir Lisin.

Mr. Sergei Perekatov has been a member of our Management Board since 2005. Since 2000, Mr. Perekatov has served as the Director for Construction and Building Maintenance. From 2004 to 2005, Mr. Perekatov was a member of the board of directors of OJSC Lipetsky Guiprometz. Mr. Perekatov is a member of the founders' council of the Autonomous Non-Commercial Sports Organization Sports Club Lipetsky Metallurg. Mr. Perekatov graduated as a mechanical engineer from the Penza Institute of Technology, which was attached to the Karaganda Steel Plant in Kazakhstan.

Mr. Sergey Rakitin has been a member of our Management Board since 2004. Since 2005, Mr. Rakitin has been our Technical Director and Chief Engineer, and he has previously held several management positions with us, including Chief Engineer (2004 to 2005), Head of Plate Rolling Unit No. 3 (2002 to 2004), Head of the Plate Rolling Production (2000 to 2002) and Deputy Head of the Mechanical and Energy Equipment of Plate Rolling Unit (1991 to 2000). Mr. Rakitin graduated as a mechanical engineer from the Magnitogorsk Institute of Mining and Metallurgy.

Mr. Vladislav Smirnov has been a member of our Management Board since 1997. Since 2004, Mr. Smirnov has served as our Deputy General Director, Power and Energy, having previously served as our Director for Power and Energy Services from 1997 to 2004. Mr. Smirnov has been a member of the board of directors of OJSC Lipetskoblgas since 2000 and, since 2004, he has held the position of the General Director and a member of the board of directors of LLC Lipetsk City Power Company. He was a member of the boards of directors of OJSC Lipetskenenergo (from 2001 to June 2005) and OJSC Criogenmash (from 2000 to 2001). Mr. Smirnov graduated as a thermal physics engineer from the Moscow Energy Institute.

Mr. Alexander Sokolov has been a member of our Management Board since 1999. Since 2000, Mr. Sokolov has been our Director for Accounting — Chief Accountant, having previously served as our Accounting, Reporting and Audit Director between 1999 and 2000 and as our Head of the Internal Audit Department in 1999. Since 2004, Mr. Sokolov has also been a senior tutor at the Lipetsk branch of the All-Russian Distance Institute of Finance and Economics. Mr. Sokolov is a member of the presidium of the Charity Fund of Social Security Miloserdije and a member of the council of the private pension fund Sotsialnoye Razvitie NPF, as well as a member of the founders' council of the Sports Club Lipetsky Metallurg. Mr. Sokolov is also the Chairman of the council of the Lipetsk Regional Territorial Institute for Professional Accountants, a member of the president council of the Institute for Professional Accountants of Russia and a member of the management board of the National Council for Financial Reporting. Mr. Sokolov has qualified in mechanical engineering, economics and law from the Voronezh Forestry Engineering Institute, the Voronezh State Agronomic University and the Moscow Griboedov Institute for International Law and Economics, respectively.

Mr. Vladimir Tretyakov has been a member of our Management Board since 2003. Mr. Tretyakov has been our Director for Information Technologies since 2000, having previously been a professor at the Rolling Production Faculty of Lipetsk State Technical University. From 2004 to 2005, Mr. Tretyakov was a member of the board of directors of OJSC Lipetsky Guiprometz. Mr. Tretyakov graduated as a metallurgical engineer from the Lipetsk Polytechnic Institute.

Mr. Stanislav Tsyrlin has been a member of our Management Board since 2005. Since 2004, Mr. Tsyrlin has been our Director for Strategy and Management Systems. From 1996 to 2003, Mr. Tsyrlin held positions at the Boston Consulting Group, including Deputy Director (from 2000 to 2003) and Head of Projects (in 2000). He served as an assistant to the chief consultant at LLC Rumelco between 2003 and 2004. Mr. Tsyrlin graduated as an engineer-physicist from the Moscow Physical & Engineering Institute and obtained a degree in business administration (MBA) from the University of Stanford.

Mr. Vyacheslav Vorotnikov has been a member of our Management Board since 2005. Since 2005, Mr. Vorotnikov has been our Director for Production, having previously served as our Deputy Director for Production from 2000 to 2005. Mr. Vorotnikov graduated as an economist from the All-Union Distance Institute Finances & Economics Institute.

Other Management

In addition to the members of the Management Board of NLMK, our group's senior management includes Mr. Alexander Saprikin, who has been the Chairman of the board of directors of Stoilensky GOK since 2004. From 1998 to 2002, Mr. Saprikin was the general director of LLC Rudprom. Since 2002, he has been the head of the raw materials market analysis department of LLC Rumelco. Mr. Saprikin has been the chairman of the board of directors of KMA Ruda since 2002 and a member of the board of directors of OJSC Stagdok (since 2003), OJSC Chernomorneftegaz (since 2004), OJSC Dolomite (since 2005) and LLC Trading House NLMK (since 2005). Mr. Saprikin is the brother-in-law of the Chairman of our Board of Directors, Mr. Vladimir Lisin.

Certain Proceedings Against Our Management

We refer collectively to the members of our Management Board and Mr. Saprikin, in his capacity as Chairman of the board of directors of Stoilensky GOK, as our Management. At the date of this prospectus, no member of our Board of Directors or Management for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

In October 2005, Mr. Kiselyev was charged by the Moscow Department of the Russian Ministry of Internal Affairs (Moscow GUVUD) in a criminal case relating to a conflict involving certain shares in OJSC Mikhailovsky GOK (which operates one of Russia's largest iron ore plants). An investigation is currently ongoing in this case. This case has no relation to NLMK or to Mr. Kiselyev's activities as a member of our Board of Directors. On November 23, 2005, Mr. Kiselyev submitted a letter of resignation to the Board of Directors.

Remuneration of Directors and Management

The aggregate amount of remuneration paid by us to our Directors and our Management as a group for services as Directors of NLMK and Management, respectively, during the year ended December 31, 2004 was approximately \$109,500 and \$703,718, respectively, in salary and \$246,667 and \$468,311, respectively, in bonuses. NLMK has its own non-state pension fund program for employees, in which Directors and members of our Management Board may also participate. In 2004, we did not make any aggregate contributions to this program for the benefit of Directors and our Management. Service contracts with our directors and with the Chairman of the Board of Directors of Stoilensky GOK do not provide for special benefits upon termination of employment. Service contracts with the members of our Management provide for payment of the equivalent of five months' salary upon termination without cause.

We also pay management consultancy fees to LLC Rumelco, which is owned and controlled by the Chairman of our Board of Directors and controlling shareholder, and which indirectly holds approximately 7.5% of our shares. LLC Rumelco currently employs our Director, Mr. Skorokhodov, and the Chairman of the Board of Directors of Stoilensky GOK, Mr. Saprikin. In 2002, 2003, 2004 and the nine months ended September 30, 2005, LLC Rumelco paid to our Directors \$48,000, \$54,000, \$60,000 and \$44,000, respectively. In addition, we have granted interest-free loans to members of our Management. See "Transactions with Related Parties".

Interests of Directors and Management

The following table shows the beneficial ownership of our shares as at the date of this prospectus by the current members of our Board of Directors and Management.

<u>Name</u>	<u>Number of shares held⁽¹⁾</u>
Mr. Vladimir Lisin	5,384,894,421
Mr. Igor Fedorov ⁽²⁾	6,000,000
Mr. Vladimir Nastich	11,011
Ms. Galina Aglyamova	10,010
Mr. Igor Anisimov	102,010
Mr. Pavel Gorodilov	13,013
Mr. Alexander Kravchenko	11,011
Mr. Viktor Khripunkov	10,010
Mr. Sergei Rakitin	10,010
Mr. Alexander Sokolov	10,010
Mr. Vyacheslav Vorotnikov	10,010

- (1) In addition, some of our directors and members of our Management may be considered to beneficially own shares held by Costen Holdings Limited. See “Principal and Selling Shareholders”.
- (2) Mr. Fedorov beneficially owns shares held by Akraktos Technologies Limited. See “Principal and Selling Shareholders”.

None of our directors and members of our Management Board has any options over our shares.

Our controlling shareholder and the Chairman of our Board of Directors has direct and indirect interests in companies with which we have engaged in transactions, including those in the ordinary course of business. See “Transactions with Related Parties”. As a result, potential conflicts of interests between his duties to us and his private interests could arise. Under Russian legislation, certain transactions defined as “interested party transactions” require approval by our disinterested directors or shareholders. See “Description of Share Capital and Certain Requirements of Russian Legislation — Interested Party Transactions”.

Corporate Governance

Corporate governance of NLMK has historically been carried out in accordance with the Joint Stock Companies Law, other regulatory acts governing operations of joint stock companies in the Russian Federation, our charter and other internal documents. We comply with the corporate governance regime of the Russian Federation, although many concepts of corporate governance that are prevalent in Western Europe and the United States are considerably less developed in Russia. For example, securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, and laws relating to anti-fraud safeguards, insider trading and fiduciary duties, are rudimentary. As a result, there are fewer safeguards for minority shareholders under Russian law, regulations and practices than would be the case in Western Europe or the United States. See “Risk Factors — Risks Relating to the Russian Federation — Legal Risks and Uncertainties — Because there is little minority shareholder protection in Russia, your ability to bring, or recover in, an action against us will be limited”.

Corporate Governance Code

On December 3, 2004, we adopted a new Corporate Governance Code. In formulating this code, we were guided both by applicable Russian laws and regulations and the principles recommended in the OECD Principles of Corporate Governance. Our Corporate Governance Code sets out principles and standards for our relations with our shareholders, the composition and proceedings of our Board of Directors, the role of our executive officers, disclosure of information and the auditing of our financial performance. Key provisions of our Corporate Governance Code include the principle of equal treatment of all our shareholders, a commitment to maintain at least three independent directors and the establishment of three board committees. See “— Board committees”.

Our Corporate Governance Code also includes a commitment to transparency. In addition to our obligations under the disclosure standards established by Russian legislation and the requirements of the Federal Service for Financial Markets, we aim to ensure timely and precise public disclosure of data on all significant issues, including our operating results, financial position, ownership and corporate governance.

We believe that our Corporate Governance Code will help to ensure that we are managed and monitored in a responsible and value-driven manner and that the rights of our shareholders and investors are protected.

Board committees

In February 2005, we formed three board committees, which will be responsible for supervising our audit, strategic planning and remuneration, nominations and social policy, respectively.

Our Audit Committee is headed by our independent Director, Mr. Randolph Reynolds, and also includes our Directors, Mr. Oleg Bagrin and Mr. Igor Fedorov. The purpose of this committee is to assist our Board of Directors with its oversight responsibilities regarding the quality and integrity of our financial statements, our compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of our internal audit function and independent auditor. In addition to our Audit Committee, we maintain a Review Commission in accordance with the requirements of the Joint Stock Companies Law. See "Description of Share Capital and Certain Requirements of Russian Legislation".

Our Strategic Planning Committee is headed by the Chairman of our Board of Directors, Mr. Vladimir Lisin, and also includes our Director and Deputy Chairman of the Board of Directors, Mr. Vladimir Skorokhodov, and our Directors, Mr. Nikolai Gagarin and Mr. Nikolai Lyakishev. The purpose of this committee is to assist our Board of Directors with our strategic development and long-term planning.

Our Remuneration, Nomination and Social Policy Committee includes our independent Director, Mr. Dmitriy Gindin, who is the acting head of this committee, and the members of our Management Board, Mr. Stanislav Tsyrlin and Mr. Sergey Melnik. The purpose of this committee is to assist our Board of Directors with developing all aspects of our personnel policy, including remuneration and appointments, and formulating our social policy in our local communities.

TRANSACTIONS WITH RELATED PARTIES

The following describes transactions we have entered into with affiliates and other entities and persons known to us, in which either we or our management, directors or major shareholders have a controlling interest or over which they have a significant influence, and which we believe are material to us or to the other party. For the description of certain other transactions with related parties, see Note 24 to the financial statements included in this prospectus. In 2002, 2003, 2004 and the nine months ended September 30, 2005, the aggregate revenues from related party transactions comprised 0.9%, 1.0%, 1.0% and 0.8%, respectively, of our total consolidated revenues for those periods. We believe that the terms of these transactions were, except for the interest free loans and transactions relating to our social commitments described below, determined by reference to market prices and terms.

- We acquired a 59.8% stake in Stoilensky GOK in March 2004 and a 31.1% stake in November 2004. These two stakes were acquired by us from entities indirectly controlled by our controlling shareholder for the combined consideration of \$636,453,000. In October and November 2004, we acquired 5.6% of the common shares of Stoilensky GOK at an auction for the sale of the state-owned shareholding and from other unrelated minority shareholders of Stoilensky GOK. Our acquisitions of Stoilensky GOK shares subsequent to the acquisition of a 59.8% stake in March 2004 were carried out at a substantially lower price per share than the acquisition of the 59.8% stake, as no control premium was paid. We also purchased iron ore concentrate from Stoilensky GOK prior to our acquisition of a controlling interest in that company. See “Business — Raw Materials and Energy”.
- In 2004, we acquired shares in our subsidiaries OJSC Dolomite, OJSC Stagdok and LLC NTK and shares in OJSC Lipetskenargo for a total of \$3.6 million. In 2004, we sold shares in OJSC Moscow Tube Plant Filit, OJSC Almet'yevsky Tube Plant, OJSC Engels Tube Plant and CJSC Korpus for a total of \$5.6 million. All these transactions were entered into with parties indirectly controlled by our controlling shareholder. See “Business — Raw Materials and Energy”.
- In 2003, we sold our shares in OJSC Kuzbassugol to Immenso Enterprises Limited, an entity controlled by our controlling shareholder, for \$38.1 million. See “Management Discussion and Analysis of Financial Condition and Results of Operations — Acquisitions and Disposals”.
- We are a party to an agreement for the provision of consultancy services with LLC Rumelco (the agreement was executed on February 4, 2003 and expires on January 1, 2006; prior to February 4, 2003 a similar agreement was in place). LLC Rumelco is owned and controlled by our controlling shareholder. Rumelco LLC's fee is based on an hourly rate that varies between \$75 and \$500 per hour. In 2002, 2003, 2004 and the nine months ended September 30, 2005, Rumelco LLC's total fees for consultancy services came to \$1.9 million, \$2.3 million, \$2.6 million and \$2.1 million, respectively. LLC Rumelco employs some of our Directors and other personnel. See “Management and Corporate Governance — Remuneration of Directors and Management”. LLC Rumelco also indirectly owns 7.52% of our shares. In 2004 and the nine months ended September 30, 2005, our sales to LLC Rumelco amounted to \$0.8 million and \$0.4 million respectively.
- We have acquired raw materials and technological equipment from, and sold our products to, LLC Rudprom, OJSC Trubostal, LLC NLK and CJSC Englesk Pipe Works, entities indirectly controlled by our controlling shareholder. The total amount of our sales to these entities in 2002, 2003, 2004 and the nine months ended September 30, 2005 was \$14.7 million, \$20.1 million, \$41.7 million and \$21.1 million, respectively. The total amount of our purchases from these entities in 2002, 2003, 2004 and the nine months ended September 30, 2005 was \$46.0 million, \$74.9 million, \$109.7 million and \$12.3 million, respectively.
- In 2003 and during the first nine months of 2004, LLC NTK retained agency fees of \$3.0 million and \$7.6 million, respectively, for the transportation of raw materials and our products. We also pay railroad tariffs to LLC NTK that LLC NTK remits to Russian Railroads. Prior to November 2004, when we acquired a 60% stake in LLC NTK, LLC NTK was indirectly controlled by our controlling shareholder.
- We have acquired electricity from OJSC Lipetskenargo and its sister companies, the entity in which we hold a 14.1% stake and our controlling shareholder indirectly holds a 23.5% stake, as well as from subsidiaries of OJSC Lipetskenargo and its sister companies. The total amount of our purchases from OJSC Lipetskenargo and its sister companies in 2003, 2004 and the nine months ended September 30, 2005 was \$85.7 million, \$106.4 million and \$106.6 million, respectively. We have also sold some of our products to OJSC Lipetskenargo. The total amount of our sales to OJSC Lipetskenargo and its sister companies in 2003, 2004 and the nine months ended September 30, 2005 was \$3.2 million, \$2.0 million

and \$5.7 million, respectively. We continue to purchase energy from, and sell products to, OJSC Lipetskenergo. See “Business — Raw Materials and Energy”.

- Our subsidiary bank has extended loans to CJSC Korpus, LLC NLK and LLC Rudprom, entities indirectly controlled by our controlling shareholder, and also OJSC Lipetskenergo. The aggregate outstanding amount of loans to those related parties in 2002, 2003, 2004 and the nine months ended September 30, 2005 was \$1.3 million, \$9.2 million, \$7.5 million and \$6.6 million, respectively.
- As of December 31, 2003, December 31, 2004 and September 30, 2005, bank deposits and other amounts in current accounts with our subsidiary bank of parties related to our controlling shareholder or our other management amounted to \$8.2 million, \$28.6 million and \$53.0 million, respectively.
- We have leased equipment from LLC NLK, an entity indirectly controlled by our controlling shareholder. The amount of capital lease liabilities to LLC NLK incurred during 2002, 2003 and 2004 was \$4.7 million, \$17.0 million and \$19.9 million, respectively. In the first quarter of 2005, all our capital lease transactions with LLC NLK were terminated.
- In 2002, 2003, 2004 and the nine months ended September 30, 2005, we granted interest free loans to our management in a total amount of \$43,000, \$40,000, \$71,000, and \$333,000, respectively. The aggregate amount of these loans outstanding as of December 31, 2002, 2003, 2004 and September 30, 2005 was \$41,000, \$38,000, \$6,000 and \$266,000, respectively. These loans were granted in accordance with the terms of the employment agreements with our management, which, as part of our incentive scheme, grant management the right to receive relatively small interest-free loans.
- In 2002, we granted an interest free loan of \$85.0 million to CJSC LKB Invest in order to finance the acquisition of NLMK shares. In 2003, CJSC LKB Invest was acquired by LLC Rumelco, an entity owned and controlled by our controlling shareholder. In 2003, the loan was fully repaid.
- In 2002 and 2003, we issued guarantees for the obligations of our subsidiary, LLC NTK, as part of an equipment purchase financing transaction, amounting to \$7.6 million and \$39.0 million, respectively. In 2004, these guarantees ceased to be effective and there were no guarantees issued to related parties as of September 30, 2005.
- We have made contributions to Socialnoe Razvitiye NPF, a non-governmental pension fund controlled by our management. The total amount of contributions for 2002, 2003, 2004 and the nine months ended September 30, 2005 was \$1.9 million, \$2.2 million, \$2.6 million and \$2.1 million, respectively. These contributions were made as part of our social commitments.
- In 2004, we made contributions to the charity fund controlled by our management in an aggregate amount of \$6.9 million. These charity contributions were made as part of our social commitments.

In addition to the transactions described above, we enter into transactions in the regular course of business with parties who may be considered “interested” parties for the purposes of the Joint Stock Company Law, which we believe are not material to ourselves or the other party. These transactions have included bank deposits that we have made with banks whose board members include members of our management. We also from time to time engage the Advocate Bureau Reznik, Gagarin, Abushakhmin and Partners and the investment bank Renaissance Capital, each of which have partners or management who are, or have been, members of our Board of Directors. See “Management and Corporate Governance — Board of Directors”.

See “Risk Factors — Risks Relating to Our Business and Industry — We have engaged and may continue to engage in transactions with related and other parties that may present conflicts of interest”.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our shares as of the date of this prospectus and as adjusted to reflect the offering and the exercise of the overallotment option in full by:

- each person known by us to own beneficially 3% or more of our outstanding shares; and
- the selling shareholder.

Beneficial owner	Shares Beneficially Owned Before the Offering		Shares Offered	Shares Beneficially Owned After the Offering		Shares Offered Pursuant to the Over-Allotment Option	Shares Beneficially Owned After the Offering Assuming Exercise of Over-Allotment Option	
	Number	Percent ⁽¹⁾		Number	Percent		Number	Percent
Mr. Vladimir Lisin ⁽¹⁾	5,384,894,421	89.85	420,000,000	4,964,894,421	82.84	63,000,000	4,901,894,421	81.79
Costen Holdings Limited ⁽²⁾	194,100,000	3.34	—	194,100,000	3.34	—	194,100,000	3.34

(1) Calculated as a percentage of our total number of shares outstanding at the date of this prospectus (5,993,227,240).

(2) Mr. Vladimir Lisin is Chairman of our Board of Directors and his business address is Pl. Metallurgov 2, Lipetsk 398040, Russian Federation. Mr. Lisin beneficially owns the shares held by Silener Management Limited, Castella Investments Limited, Merobel Investments Limited, Ultimex Trading Limited, Veft Enterprises Limited and CJSC LKB Invest. Other than the shares held by CJSC LKB Invest, such shares are beneficially owned through Fletcher Industrial Equity Fund Ltd., an International Business Company organized under the laws of the Bahamas. Veft Enterprises Limited is the selling shareholder in this offering. As a result of his beneficial ownership of these companies, Mr. Lisin controls NLMK. See “Transactions with Related Parties”.

(3) See “— Recent Changes in our Principal Shareholders”.

None of our shareholders has voting rights different from any other holders of our shares. To the extent known to us, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control.

Recent Changes in our Principal Shareholders

In August 2005, two of our shareholders, Ultimex Trading Limited and Merobel Investments Limited, sold an aggregate amount of 200,100,000 of our shares, or approximately 3.34% of our total shares outstanding, to companies beneficially owned by certain members of our Board of Directors and Management Board and by managers of some of our subsidiaries. Ultimex Trading Limited and Merobel Investments Limited are beneficially owned by Mr. Vladimir Lisin, Chairman of our Board of Directors, through Fletcher Industrial Equity Fund Ltd., an International Business Company organized under the laws of the Bahamas. In these share sale transactions, Ultimex Trading Limited sold 194,100,000 of our shares to Costen Holdings Limited, and Merobel Investments Limited sold 6,000,000 of our shares to Akraktos Technologies Limited.

The voting common stock of Costen Holdings Limited is beneficially owned in equal proportions by Mr. Vladimir Skorokhodov and Mr. Oleg Bagrin, members of our Board of Directors; Mr. Vladimir Nastich and Ms. Galina Aglyamova, members of our Management Board; Mr. Alexander Saprykin, Chairman of the Board of Directors of our subsidiary, Stoilensky GOK; and Mr. Alexander Zarapin, Chairman of the Board of Directors of our subsidiary, OOO Trading House NLMK. The holders of voting common stock of Costen Holdings Limited have an unequal economic interest in Costen Holdings Limited through the ownership of preferred shares which are distributed among them as follows: Mr. Vladimir Skorokhodov owns 10,789 preferred shares; Mr. Oleg Bagrin owns 3,589 preferred shares; Mr. Vladimir Nastich owns 359 preferred shares; Ms. Galina Aglyamova owns 359 preferred shares; Mr. Alexander Saprykin owns 3,589 preferred shares; and Mr. Alexander Zarapin owns 719 preferred shares. There are no other holders of preferred shares of Costen Holdings Limited.

The voting common stock of Akraktos Technologies Limited is beneficially owned by Mr. Igor Fedorov, currently a member of our Board of Directors. See “Management and Corporate Governance — Interests of Directors and Management”.

The purchase price for the shares was based on the trading price of our shares on the RTS on the date of the relevant transaction. Under the respective terms of sale, Costen Holdings Limited and Akraktos Technologies

Limited are not obliged to pay the purchase price for these shares until December 31, 2006, and they each pledged their shares to secure their respective payment obligations. These shares are not otherwise restricted under the respective transaction agreements. Each of Costen Holdings Limited and Akraktos Technologies Limited has an option of terminating its respective share purchase agreement without paying the purchase price, upon which termination the shares return to the relevant seller.

In addition, Merobel Investments Limited sold 71,900,000 of our shares, or approximately 1.199% of our shares outstanding, to Trixton Technologies Limited in August 2005. Trixton Technologies Limited is beneficially owned by the shareholder of the wholesale traders to whom we sell substantially all of our steel export products. See “Business — Export Sales”. The purchase price for the shares was based on the trading price of our shares on the RTS on the date of the transaction. Under the acquisition terms Trixton Technologies Limited is not obliged to pay the purchase price until December 31, 2006, and the acquired shares were pledged to secure the payment obligations of Trixton Technologies Limited. The shares are not otherwise restricted under the transaction agreements.

In August 2005, Merobel Investments Limited also sold 72,250,000 of our shares, or approximately 1.2% of our shares outstanding, to investors who are not affiliated to NLMK or our controlling shareholder.

REGULATORY MATTERS

We describe below certain regulatory matters that are applicable to our operations.

Regulation of the Russian Steel Industry

Russia 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 September 5, 2002, the Russian government approved the “Plan of Measures for Development of the Russian Steel Industry until 2010,” or 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, investing in new technologies, and professional development and social protection of the industry’s workforce. The implementation of the Plan is expected to facilitate the modernization of the Russian steel industry, increase its export potential, improve the quality of steel and steel products and allow the sector to develop in a positive manner over the relevant period.

The Federal Law “On Technical Regulation” No. 184-FZ dated December 27, 2002, as amended, or 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 utilization.

The Technical Regulation Law supersedes the Laws of the Russian Federation “On Certification of Goods and Services” No. 5151-1 dated June 10, 1993 and “On Standardization” No. 5154-1 dated June 10, 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. In particular, the Federal Service for Environmental, Technological and Nuclear Supervision is responsible for developing and enacting new technical rules relating to the industrial safety of steel and iron-making facilities as well as coking and chemical facilities and safety rules relating to iron ore extraction.

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, foreign trade, taxation, support of scientific research and employment). The Ministry of Natural Resources is responsible for the licensing of subsoil resources and also regulates exploration and geological prospecting.

The Ministry for Economic Development and Trade of the Russian Federation regulates Russian exports and imports of steel products and coordinates inter-governmental negotiations relating to export and import regulations.

The federal ministries in Russia 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 our activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision, which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licenses for certain industrial activities and activities relating to safety and environmental protection.
- The Federal Agency for Subsoil Use, which organizes auctions and issues licenses for subsoil use and approves design documentation for subsoil production activities.
- The Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory general and industrial standards.

Aside from the above federal executive bodies, which are directly involved in regulating and supervising the steel sector in Russia, there are a number of other federal regulators and their structural subdivisions which have authority over general issues relevant to the Russian steel industry such as defense, 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

We are required to obtain numerous licenses, authorizations and permits from Russian governmental authorities for our operations. The Federal Law “On Licensing of Certain Types of Activities” of August 8, 2001, as amended, as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licenses. In particular, some of our companies need to obtain licenses and permits to carry out their activities, including, *inter alia*:

- the use of subsoil, which is described in more detail in “— Subsoil Licensing” below;
- the use of water resources;
- geodesic works
- the discharge of pollutants into the environment;
- the handling of hazardous waste;
- storage and use of explosive, flammable and/or dangerous materials;
- operation of hazardous industrial facilities;
- construction;
- fire control;
- medical operations;
- educational services; and
- transportation activities.

These licenses are usually issued for a period of five years and may be extended upon application by the licensee. Licenses for the use of natural resources may be issued for shorter or longer periods. In particular, licenses for the use of surface water resources may be issued for periods of up to 25 years. Upon the expiration of a license, it may be extended upon application by the licensee. Certain types of licenses may also have unlimited terms.

Regulatory authorities maintain considerable discretion in the timing of issuing licenses and permits. The requirements imposed by these authorities may be costly, time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Further, private individuals and the public at large possess rights to comment on and otherwise participate in the licensing process, including through challenges in the courts. Accordingly, the licenses we need may not be issued, or if issued, may not be issued in a timely fashion, or may impose requirements which restrict our ability to conduct our operations or to do so profitably.

As part of their obligations under licensing regulations and the terms of our licenses and permits, some of our companies 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 Russia, mining minerals requires a subsoil license from the state authorities 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 use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Federal Law of the Russian Federation “On Subsoil” No. 2395-1 dated February 21, 1992, as amended, or the Subsoil Law and the regulations issued thereunder. The Procedure for Subsoil Use Licensing, or the Licensing Regulation, adopted by Resolution of the Supreme Soviet of the Russian Federation on July 15, 1992, as amended, also regulates the exploration and production of mineral resources.

There are two major types of licenses: (1) an exploration license, which is a non-exclusive license granting the right of geological exploration and assessment within the license area, and (2) a production license, which grants the licensee an exclusive right to produce minerals from the license area. In practice, many of the licenses are issued as combined licenses, which grant the right to explore, assess and produce minerals from the license area. A subsoil license defines the license area in terms of latitude, longitude and depth.

There are two major types of payments with respect to the use of subsoil: (1) periodic payments for geological exploration under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The Subsoil Law-mandated payments are not material to our mining segment's results of operations. The minerals extraction tax is calculated as a percentage of the value of minerals extracted. Currently the tax rates are 4% for coal, 4.8% for iron ore and 8% for nickel. In 2004, we incurred the minerals extraction tax in the amount of approximately \$3.7 million.

The term of the license is set forth in the license. Prior to January 2000, exploration licenses could have a maximum term of five years, production licenses a maximum term of 20 years, and combined exploration, assessment and production licenses a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licenses may still have a maximum term of five years; production licenses may have a one-year term in a limited number of special cases, but are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licenses can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licenses issued prior to January 2000, but permit licensees to apply for extensions of such licenses for the term of the expected operational life of the field in accordance with the amended Subsoil Law. The term of a subsoil license runs from the date the license is registered.

Issuance of licenses

Subsoil licenses are generally issued by the Federal Agency for Subsoil Use. Most of the currently existing production licenses 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 reorganized in the course of post-Soviet privatizations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation contain the major requirements relating to tenders and auctions.

Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licenses, in particular abolishing the joint grant of licenses by federal and regional authorities. Under the 2004 amendments, production licenses and combined exploration and production licenses are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licenses. The winning bidder in the 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 the auction, the success of the bid is determined by the attractiveness of the financial proposal.

The Subsoil Law allows for production licenses to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration license at its own expense during the exploration phase. In those circumstances, as a matter of practice, the production license will be issued to the holder of the exploration license, but, legally, the right of the holder of the exploration license to receive the production license in the event of discovery is not guaranteed.

Regional authorities may issue production licenses for "common" mineral resources, such as clay, sand or limestone. A license recipient is also usually granted rights to use the land surrounding the license area.

Extension of licenses

The Subsoil Law permits a subsoil licensee to request an extension of a production license in order to complete the production from the subsoil plot covered by the license 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 license and the relevant regulations.

In order to extend a subsoil license, a company must file an application with the federal authorities to amend the license.

The Order of the Ministry of Natural Resources No. 439-R, dated October 31, 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 license; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended license.

The factors that may, in practice, affect a company's ability to obtain the approval of license amendments include (1) its compliance with the license terms and conditions; (2) its management's experience and expertise relating to subsoil issues, including experience in amending licenses; and (3) the relationship of its management with federal and/or local governmental authorities, as well as the local governments. For a description of additional factors that may affect Russian companies' ability to extend their licenses, see "Risk Factors — Risks Relating to Our Business and Industry — Our business could be adversely affected if we fail to obtain, maintain or renew necessary licenses, including subsoil licenses, and permits or fail to comply with the terms of our licenses and permits". See also "Risk Factors — Risks Relating to the Russian Federation — Legal Risks and Uncertainties — Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of the Shares and GDSs".

Maintenance and termination of licenses

A license granted under the Subsoil Law is generally accompanied by a licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil license. Prior to the August 2004 amendments, the relevant regional authority, the Ministry of Natural Resources and the licensee were each party to a license agreement. Under the August 2004 amendments only the Federal Agency for Subsoil Use and the licensee will be party to future license agreements.

Under a licensing agreement, the licensee makes 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 license areas from damage; providing geological information and data to the relevant authorities; submitting on a regular basis formal progress reports to regional authorities; making all obligatory payments when due and commitments with respect to social and economic development of the region. When the license expires, the licensee must return the land to a condition which is adequate for future use. Most of the conditions set out in a license are based on mandatory rules contained in Russian law, and license agreements are generally not negotiable. We expect that we will be able to meet the commitments set forth in our licensing agreements.

The fulfillment of a license's conditions is a major factor in the good standing of the license. If the subsoil licensee fails to fulfill the license's conditions, upon notice, the license 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 license, it may apply to amend the relevant license conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for license termination. A licensee can be fined or the license can be limited, suspended or terminated for the reasons noted above, 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. A license may also be limited, suspended or terminated for violations of "material" license 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 suspension or termination of licenses. Consistent underproduction and failure to meet obligations to finance a project would also likely constitute violations of material license terms. In addition, certain licenses provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for limiting, suspending or terminating the license.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a license limitation, suspension or termination or the refusal to re-issue an existing license, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Licenses may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the license holder or in the event that an initial license holder transfers its license to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or production activity that is covered by the transferred license.

Land Use Rights

Land use rights are needed and obtained for only the portions of the license 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 October 25, 2001, as amended, or the 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 October 25, 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by January 1, 2006.

Our mining subsidiaries generally have a right of perpetual use of their plots or have entered into long-term lease agreements. A lessee has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or more must be registered with the relevant state authorities.

Environmental

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law “On Environmental Protection” No. 7-FZ of January 10, 2002, as amended, or the Environmental Protection Law, as well as by a number of other federal and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, 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 a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: 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 from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In 2004, we incurred such fees in the amount of \$2.76 million.

Ecological approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law “On Ecological Expert Examination” No. 174-FZ of November 23, 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in “Environmental Liability” below.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organizations, 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 environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. We have, in the past, been subject to court actions and fines in relation to breaches of environmental regulations. Although none of these court actions and fines have had, individually or in aggregate, a material adverse effect on us, our business and results of operations, we cannot assure you that any such court actions or fines will not have a material effect on us in the future.

Subsoil licenses 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.

Reclamation

We conduct our reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of December 22, 1995, of the Ministry of Natural Resources. In general, our reclamation activities involve both a technical stage and a biological stage. In the first stage, we backfill the pits, grade and terrace mound slopes, level the surface of the mounds, and add clay rock on top for greater adaptability of young plants. In the biological stage, we plant conifers (pine, larch, cedar) on horizontal and gently sloping surfaces, and shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour (AOC) of the property as is required, for example, in the United States.

Environmental protection programs

We have been developing and implementing environmental protection programs. Such programs include measures to aid in our adherence to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

Health and Safety

Due to the nature of our business, much of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are 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 July 21, 1997, as amended, or 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 alloys of ferrous and non-ferrous metals are produced and where certain types of mining is done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

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 a state 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 Labor Code of Russia effective February 1, 2002, as amended, or the Labor Code. In particular, they must limit access to such sites to qualified specialists, 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 programs, 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 summarize 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 a state industrial safety review, are required for the issuance of a license permitting the operation of a dangerous industrial facility.

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.

Regulation of Competition

Competition in Russia is primarily regulated by the Law "On Competition and Limiting Monopolistic Activity on the Commodities Markets" No. 948-I dated March 22, 1991, as subsequently amended, or the Competition Law. Certain regulatory powers are vested in the Federal Anti-Monopoly Service, or the FAS.

As part of its competition monitoring activities, the FAS keeps a register of companies which have more than a 35% share in a particular goods market. As a major Russian steel producer, NLMK appears on the register in relation to certain types of steel products. For some of the products that we sell, our market share in Russia exceeds 65%, which means that we are deemed to have a dominant position in those markets. Under the current Russian competition law, companies entered on the register and having a dominant position are prohibited from, among other things, entering into agreements which have the effect of price fixing or which otherwise have the effect of limiting competition, artificially limiting the supply of goods, maintaining high or low monopolistic prices and refusing without justification to sell goods to third parties. In addition, the FAS is currently investigating allegations of price fixing by the major Russian iron ore producers, including our subsidiary, Stoilensky GOK.

Where the aggregate value of the assets of the acquiring company and the target company is in excess of 30,000,000 times the monthly minimum wage in Russia (approximately \$110,000,000), the consent of FAS must be obtained prior to each acquisition of more than 20% of the voting stock of a company, the assets of another company if the value of such assets exceeds 10% of the aggregate balance sheet value of the target company or the rights to control business activities of another company or perform the functions of its executive body. If the aggregate value of the assets of the merged companies is in excess of 2,000,000 times the monthly minimum wage in Russia (approximately \$7,140,000), but less than 30,000,000 times, the FAS must be notified after such

an acquisition. Where either the acquiring company or the target company is entered on the register, the FAS's consent must be obtained prior to each acquisition irrespective of the aggregate value of assets of the parties to the transaction.

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 Russia are primarily regulated by the Federal Law "On Fundamentals of State Regulation of Foreign Trade Activities" No. 164-FZ dated December 8, 2003 and bilateral agreements between Russia and its trading partners, including the United States, the European Union and China, which establish minimum prices and/or quotas for the export from Russia to those markets of certain types of steel products. Russian exporters of steel products to the United States and the European Union are required, in accordance with the bilateral agreements between Russia and the United States and the European Union, respectively, to obtain a license for those exports from the Russian Ministry for Economic Development and Trade.

United States

On March 6, 2002, the United States introduced safeguard measures in respect of steel imports, which resulted in the imposition of additional import duties (ranging from 8% to 30%) 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 Russia. These U.S. measures resulted in a 'domino' effect of similar safeguard measures in other regions, including the European Union, 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 December 5, 2003, the United States revoked its 2002 safeguard measures. As a result, Russian steel producers 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 December 20, 2002, replacing the non-market economy agreement which had been in force since 1997, although we are not a party to this agreement;
- A Suspension Agreement on hot-rolled flat carbon steel products, which established minimum prices and quotas. The quota for 2003 was 725,000 tonnes (of which we obtained 185,770 tonnes) and the quota for 2004 was 768,500 tonnes (of which we obtained 173,952 tonnes). While these quotas have generally been enough to satisfy Russian producers' needs, we used part of our quota for 2003 and 2005 in 2004, in response to favorable market conditions, resulting in a total quota for us in 2004 of 239,019 tonnes. This agreement was extended on April 28, 2005 following a five-year sunset review.

In relation to steel products such as cold-rolled, galvanized 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 July 11, 2004.

Russia was granted "market economy" status by the United States with effect from April 1, 2002.

European Union

The European Union and Russia signed an agreement on July 9, 2002, which established a quota for the export of Russian steel into the European Union. As a result of this agreement, the import restrictions on several types of steel products that the European Union introduced in September 2002 and, following the termination of U.S. safeguard measures, revoked in December 2003, did not apply to Russian steel exports. As a result of European Union enlargement, which took effect on May 1, 2004, inter-governmental consultations were conducted during 2003, which focused primarily on increasing Russian quotas to reflect imports of Russian steel made by the ten new member states prior to their accession to the European Union. As a result, Russian quotas on flat-rolled steel for 2004 increased on May 1, 2004 by 321,407 tonnes, or 28.4%, to 1,131,735 tonnes. We obtained 312,011 tonnes of this total Russian quota. In 2004, we carried over part of our unused quota from 2003, and, as a result, our total quota for 2004 was 386,466 tonnes.

The table below shows the quota for the export of Russian flat-rolled steel into the European Union for the years 2002, 2003 and 2004:

Products <i>(in tonnes)</i>	2002	2003	2004	2005⁽¹⁾
Hot-rolled products	259,000	256,250	262,660	—
Hot-rolled products for rolling	485,000	497,130	509,550	—
Total	744,000	753,380	772,210	908,268
Hot-rolled sheet, thick	60,000	61,500	63,040	190,593
Other flat products	80,000	82,000	84,050	389,741
Alloyed products	90,000	92,250	94,560	97,080
Alloyed hot-rolled plate	—	—	20,500	21,509
Alloyed cold-rolled steel and coated sheet steel	—	—	97,375	100,095
Total flat products	974,000	989,130	1,131,735	1,707,286

(1) Under the agreement between Russia and the European Union of November 3, 2005.

The agreement between Russia and the European Union of July 9, 2002 expired on December 31, 2004. A new Agreement between Russia and the European Union came into force on November 3, 2005 and will be valid until the end of 2006 or, if earlier, the date of Russia's accession to the WTO. The new agreement increases quotas for Russian flat-rolled products to 1,707,286 tonnes and 1,749,969 tonnes for 2005 and 2006, respectively.

On August 28, 2005, our agreement with the European Union came into force which provides for the suspension of an anti-dumping duty of 11.5% on our exports of grain-oriented electrical steel to the European Union in exchange for our products being subject to minimum market-referenced prices and regular reporting by us to the Commission of the European Union.

Russia was granted market economy status by the European Union in November 2002.

China

On May 24, 2002, China introduced safeguard measures, comprising preliminary tariff-rate quotas for all steel imports, in particular those from Russia, for a period of six months, and, in addition, on November 20, 2002, China established tariff-rate quotas for all imports of five categories of steel for a period of two and a half years. Following the decision of the United States and the European Union, in 2003, to terminate the safeguard measures that they had introduced in 2002, China also terminated these quota restrictions on December 26, 2003.

On January 14, 2004, the Chinese government decided to impose anti-dumping duties on cold-rolled steel producers from a number of countries, including Russia, following anti-dumping proceedings. Those anti-dumping measures came into force following the revocation of the safeguard measures described above. Russian producers are subject to duties of between 7% and 18%, and we are subject to the lowest duty of 7%. The high price of steel in China, due to strong demand and low domestic supply, mitigated the effects of those duties on Russian steel producers. On September 10, 2004, China announced its decision to suspend anti-dumping duties on Russian cold-rolled steel for an indefinite period due to the shortage of the supply of steel in the Chinese market. However, the duties may be resumed if those circumstances change.

Russia and China have discussed a mechanism for resolving trade disputes which will enable them to settle mutual claims without adopting safeguard or anti-dumping measures. A further round of negotiations between Russia and China regarding access for Russian steel producers to the Chinese market took place in September 2003, which was followed by the suspension by China of anti-dumping duties on Russian steel exporters. China applies market economy methodology in calculating its anti-dumping measures.

Ukraine and Kazakhstan

On November 28, 2001, at the request of MMK, Severstal and ourselves, the Russian Government Committee on Protective Measures in Foreign Trade initiated an anti-dumping investigation relating to the import of galvanized rolled steel from Kazakhstan and Ukraine. This investigation was instigated following the increase of imported galvanized steel in Russia from 118,000 tonnes in 1998 to 173,700 tonnes in 2000, giving Ukraine and Kazakhstan a market share in Russia in this product of approximately 40%. As a result of this investigation, Russia introduced preliminary anti-dumping duties in respect of Ukrainian and Kazakhstan exports at a rate of 31.8% and 36.9%, respectively, for the period from August 5, 2002 until December 4, 2002. On May 8, 2003, Russia introduced a further anti-dumping duty in relation to the import of galvanized steel from Ukraine at a rate of 24.3% for a period of two and a half years. Following inter-governmental consultations, a Suspension Agreement was concluded, which established quotas and minimum prices in relation to imports from Ukraine. No measures were applied against Kazakhstan.

In addition, as a result of Ukraine providing specific subsidies to Ukrainian producers of wire rod, rebars and round bars, OAO Mechel initiated, on June 21, 2001, an investigation into the subsidized export of these types of products from Ukraine. Following this investigation, compensation duties were imposed at the rate of 21% from August 14, 2002 for a period of three years. These protective measures resulted in a decrease of 33% of the aggregate volume of imported rolled products into Russia in 2002, compared to 2001.

General

In general, the recent trend worldwide has been for the relaxation of import restrictions. The largest importers of our products are the European Union countries, North America and South-East Asia. Restrictive measures on imported steel introduced by certain Latin American countries have not affected our business adversely, as our exports have, for geographical reasons, been principally directed at markets in the European Union, North America and South-East Asia. We believe that, due to Russia being granted market economy status by the European Union 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 we expect this trend to continue if Russia accedes to the WTO.

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. We actively participated, along with other Russian steel producers, in all those proceedings. In general, the granting of market economy status to Russia 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 June 21, 1999 and October 18, 2001, and, since April 2002, we have incurred lower rates of duty in anti-dumping proceedings, recording an average rate of 34%, compared to previous periods, such as, for example, the 184% anti-dumping duty for Russian hot-rolled steel that the United States imposed in 1999. During 2004 and 2005, we 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 April 14, 2005, to retain these measures.

Since 2000, we have participated in total in ten anti-dumping proceedings in total, five of which we consider to have been successful, on the basis that we either obtained the lowest rate of duty in those proceedings (7%) or the proceedings were terminated without any measures being introduced. In addition to the U.S. proceedings described above, we participated during 2003-2004 in two five-year sunset reviews of anti-dumping measures introduced in Canada in 1999, which concluded that no harm had been caused to Canadian steel industry by Russian imports. As a result, Canada terminated the anti-dumping duty measures on Russian hot-rolled steel in June 2004, which had been set at a rate of 42% for us and 77% for other Russian steel producers, and, on August 27, 2004, terminated anti-dumping duty measures on Russian cold-rolled steel, which had been set at a rate of 29% for us and 40% for other Russian steel producers.

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.

In 2004, we participated in one ongoing anti-dumping investigation in the European Union on grain-oriented electrical steel, which resulted in the imposition of an anti-dumping duty of 11.5%. This duty is currently suspended. See “— Trade Barriers and Anti-Dumping Regulations — European Union”.

We have participated in five other anti-dumping proceedings in total since 2000. These investigations were conducted in Egypt (a 38% duty on hot-rolled steel and a 36% duty on cold-rolled steel), in the European Union (grain-oriented silicon-electrical steel wider than 600 mm with 40.1% duty) and in Thailand (a 24.2% duty for hot-rolled steel and a 35.8% duty for cold-rolled steel). However, these proceedings did not have a material effect on our business.

We, along with other Russian steel producers, continue to participate in those proceedings, proceedings and reviews that we regard as important to our business. We intend to continue to participate actively in all inter-governmental consultations relating to Russian steel exports to the United States, the European Union and other international markets.

Employment and Labor

Labor matters in Russia are primarily governed by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws, such as the Federal Law “On Collective Contracts and Agreements” of March 11, 1992, as amended; the Federal Law “On the Procedure of Settlement of Collective Labor Disputes” of November 23, 1995, as amended; the Federal Law “On Employment in the Russian Federation” of April 20, 1996, as amended; the Federal Law “On the Fundamentals of Protection of Labor in the Russian Federation” of July 17, 1999, as amended.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labor 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 labor 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 Labor Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position’s requirements due to incompetence or health problems;
- systematic failure of the employee to fulfill his or her duties;
- any single gross violation by the employee of his or her duties;
- provision by the employee of false documents or misleading information prior to entry into the employment contract; and
- certain other grounds.

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 Labor Code also provides protections for specified categories of employees. For example, except for a limited number of circumstances, 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 other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee maybe 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 Labor 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 four weeks. Our employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from six to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is currently 800 rubles (currently approximately \$28). 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 Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor 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 labor 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 Russia. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of our employees and the stability of our business.

The activities of trade unions are generally governed by the Federal Law “On Trade Unions, Their Rights and Guaranties of Their Activity” No. 10-FZ of January 12, 1996, as amended, or the Trade Union Law. Other applicable legal acts include the Labor Code of Russia, the Federal Law on Collective Contracts and Agreements of March 11, 1992, as amended, and the Federal law on the Procedure for Settlement of Collective Labor Disputes of November 23, 1995, as amended, which provide for more detailed regulations relating to activities of trade unions.

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 coordinate activities of trade unions throughout Russia, 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 labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate 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 elected or appointed to the management 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 labor inspectors and prosecutors to ensure that an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor 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 labor disputes are generally referred to mediation or labor arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanors of December 30, 2001, nor the Criminal Code of the Russian Federation of June 13, 1996, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered common shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation.

Our Purpose

Article 3 of our charter provides that our primary purpose is to earn profit by conducting entrepreneurial activity.

Description of Share Capital

General

Pursuant to our charter, we have the right to issue registered common shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities.

In the years ended December 31, 2002 and 2003, our share capital consisted of 5,987,240 issued common shares with a par value of 1 ruble each. In May 2004, following a revaluation of fixed assets, NLMK issued 5,987,240,000 additional common shares with a par value of 1 ruble each. These shares were distributed to all existing shareholders of NLMK in proportion to their shareholding at the date of distribution such that each eligible shareholder received 1,000 additional shares for each share held. Following the issue of those additional shares, our share capital consisted of 5,993,227,240 common shares, each with a nominal value of 1 ruble, all of which were fully paid, issued and outstanding, and, as at the date of this prospectus, there have been no further changes to our share capital.

Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. No preferred shares are authorized or outstanding. Additional common or any preferred shares may only be issued if amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

We are an open joint stock company with more than 1,000 holders of voting shares for purposes of certain provisions of the Joint Stock Companies Law described below.

Rights attaching to common shares

Holders of our common shares have the right to vote at all shareholder meetings. As required by the Joint Stock Companies Law and our charter, all of our common shares have the same nominal value and grant identical rights to their holders. Each fully paid common share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends;
- participate in shareholders' meetings and vote on all matters of shareholders' competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- through participation in general meetings of shareholders, elect and dismiss the General Director, members of the Board of Directors and the Audit Commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of our fiscal year, make proposals for the annual shareholders' meeting and propose candidates to the Board of Directors and the Audit Commission;
- if holding, alone or with other holders, 10% or more of the voting stock, demand from the Board of Directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the Audit Commission;
- demand the repurchase by us of all or some of the shares owned by such holder, as long as the holder voted against or did not participate in the voting on the decision approving the following action (and provided that we may not use more than 10% of our net assets to repurchase such shares):
 - a reorganization;

- the approval by shareholders of a major transaction, as defined under Russian law; and
- the amendment of our charter in a manner that limits shareholders' rights;
- upon liquidation, receive a proportionate amount of our property after our obligations to our creditors are fulfilled;
- have free access to certain company documents, receive copies for a cost-based fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents and minutes of the management board meetings; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meetings approved in accordance with its competence.

Preemptive rights

Our charter provides existing shareholders with a preemptive right to purchase shares or convertible securities during an open subscription in an amount proportionate to their existing shareholding. In addition, the Joint Stock Companies Law provides shareholders with a preemptive right to purchase shares or convertible securities during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The preemptive right does not apply to a closed subscription to existing shareholders, provided that each such shareholder may acquire a whole number of shares or convertible securities being placed in an amount proportionate to their existing holdings of such securities.

Dividends

The Joint Stock Companies Law, our charter and our dividend policy set forth the procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the Board of Directors, and approved by the shareholders' meeting by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter; a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the Board of Directors. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends within 90 days of the date of the shareholder resolution to approve the dividends. See "— General Meetings of Shareholders — Notice and participation" below. Dividends are not paid on treasury shares, as defined under Russian law.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the excess of the liquidation value over the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares tendered by shareholders having the right to demand repurchase; and
- the company is not, and would not become as the result of the proposed dividend payment, insolvent.

Distributions to shareholders on liquidation

Under Russian legislation, the liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allows us to be liquidated by a three-quarters majority vote of a shareholders' meeting or by a court order.

Following a decision to liquidate the company, the right to manage our affairs would pass to the liquidation commission which, in the case of voluntary liquidation, is appointed by a shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but which may not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths;
- employees;
- secured creditors;
- federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

The Federal Law on Insolvency (Bankruptcy) provides for a somewhat different order of priority of creditors' claims in the event of insolvent liquidation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders which demand the repurchase of their shares in accordance with the Joint Stock Companies Law;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of common and preferred shares on a pro rata basis.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is deemed an "effective parent". The entity whose decisions are capable of being so determined is deemed an "effective subsidiary". The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Accordingly, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the willful action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Charter capital increase

We may increase our charter capital by issuing new shares, or increasing the nominal value of already issued shares using the company's property.

Generally, a decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. A decision to increase the charter capital by (1) issuing, by open subscription, additional common shares up to 25% of the previously issued and outstanding common shares; (2) issuing, by open subscription, additional preferred shares convertible into up to 25% of the previously issued and outstanding common shares; or (3) issuing additional common or preferred shares using the company's property, requires a unanimous vote of our entire Board of Directors. A decision to increase the charter capital by (i) issuing, by open subscription, additional common shares exceeding 25% of the previously

issued and outstanding common shares; (ii) issuing, by open subscription, additional preferred shares convertible into more than 25% of the previously issued and outstanding common shares; or (iii) issuing common or preferred shares by closed subscription, requires three-quarters majority vote of a shareholders' meeting. Our charter does not provide for authorized and non-issued common shares or preferred shares and sets forth the nominal value of our shares. Consequently, any issuance of additional common or preferred shares or increase of the nominal value of our shares would necessitate a charter amendment, which requires a three-quarters majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at market value, except in limited circumstances where (1) existing shareholders exercise a preemptive right to purchase shares at not less than 90% of the price paid by third parties, or (2) fees of up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The Board of Directors and an independent appraiser value any in-kind contributions for new shares.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures include:

- prior registration of a share issuance with the Federal Service for the Financial Markets;
- public disclosure of information relating to the share issuance; and
- following the placement of the shares, registration and public disclosure of the results of the placement of shares.

Capital decrease; share buy-backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. Our charter requires that any decision to reduce our charter capital, whether through a repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made by a majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of publication or receipt of our notice, accelerated performance or termination of all obligations owed to them, as well as compensation for damages.

The Joint Stock Companies Law allows our shareholders or our Board of Directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares must be resold at market price within one year of their repurchase, otherwise the shareholders must decide to cancel such shares and decrease the charter capital.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital has been paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the excess of the liquidation value over par value of our issued and outstanding preferred shares; and
- we have repurchased all shares tendered by shareholders having the right to demand repurchase of their shares, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand the repurchase by us of all or some of their shares so long as the shareholder demanding such repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- a reorganization;
- the approval by shareholders of a major transaction, as defined under Russian law; and
- the amendment of our charter in a manner that limits shareholders' rights.

We may spend for a share redemption demanded by shareholders no more than 10% of our net assets calculated under Russian accounting standards as of the date of the general meeting of shareholders which approved one of the decisions above. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro rata basis.

Registration and transfer of shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of our registered common shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. Our shareholder register is maintained by R-Stinol LLC, whose registered office is located at 10B, 9 May Street, Lipetsk 398017, Russian Federation.

The purchase, sale or other transfer of shares are accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a licensed Russian depositary if shares are held by such depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, may be challenged in court.

Reserve fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of at least 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our statutory net profits until the reserve fund has reached the 5% requirement.

General Meetings of Shareholders

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide issues that are not included in the list of its competence by the Joint Stock Companies Law and our charter. Among the issues which the shareholders have the exclusive power to decide are:

- charter amendments;
- reorganization or liquidation;
- election and removal of the members of the Board of Directors;
- appointment and removal of the General Director;
- determination of the number, nominal value and type of authorized shares and rights granted by such shares;
- changes in the company's charter capital except for the issuance of (i) common shares by open subscription up to 25% of the previously issued and outstanding common shares, (ii) preferred shares, by open subscription, convertible into up to 25% of the previously issued and outstanding common shares, and (iii) common or preferred shares using the company's assets;
- appointment and removal of an external auditor and the members of the company's review commission and counting commission;
- approval of certain interested party transactions and major transactions;
- distribution of profits; and
- redemption by the company of issued shares in cases provided for by the Joint Stock Companies Law.

Voting at a shareholders' meeting is generally on the principle of one vote per common share, with the exception of the election of the Board of Directors, which is done through cumulative voting. See "—Board of Directors" below. Decisions are generally passed by a majority vote of the holders of voting stock present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company;
- determination of the number, nominal value and type of authorized shares and the rights granted by such shares;

- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into common shares by closed subscription; or
- issuance by open subscription of common shares or securities convertible into common shares, in each case, constituting more than 25% of the number of issued and outstanding common shares.

The quorum requirement for our shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the Board of Directors between March 1 and June 30 of each year, and the agenda must include the following items:

- determination of the number and election of members of the Board of Directors;
- approval of the annual statutory report, balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an independent auditor for statutory accounts; and
- approval of the review commission.

The shareholders' meeting also approves compensation for members of our Board of Directors. A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the Board of Directors and the review commission. Any agenda proposals or nominations must be provided to the company no later than January 30.

Extraordinary shareholders' meetings may be called by the Board of Directors on its own initiative, or at the request of the review commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of directors;
- election of the review commission;
- approval of a company's independent auditor for statutory accounts; and
- approval of the annual report, balance sheet, profit and loss statement under Russian law, and any distributions of profits, including approval of annual dividends, if any.

Notice and participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if the meeting is an extraordinary shareholders' meeting to elect the Board of Directors by cumulative vote, shareholders must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the agenda may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is compiled on the basis of data in our shareholders register on the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of a shareholders' meeting to elect the Board of Directors by cumulative vote, not more than 65 days before the date of the meeting).

The right to participate in a general shareholders' meetings may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorized representative.

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and our charter as being the exclusive responsibility of the General Meeting of Shareholders.

Our charter provides that our entire Board of Directors must be elected at each annual general shareholders' meeting and that our Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting. If our shareholders sought to dismiss one of our directors, our shareholders would be required to dismiss the entire Board of Directors and then re-appoint at a general meeting those directors whom they wished to retain.

The Joint Stock Companies Law requires all joint stock companies with 50 or more shareholders to have at least a five-member board of directors, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or by a decision of the shareholders' meeting. Our charter provides that the number of members on our Board of Directors is determined by the shareholders. Currently, our Board of Directors consists of nine members. See "Management and Corporate Governance — Board of Directors".

The Joint Stock Companies Law generally prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. Our Board of Directors has the power to direct the general management of the company, and to decide the following issues:

- determination of our business priorities;
- convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;
- placement of our bonds and other securities as provided for by the Joint Stock Companies Law;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- formation of our executive bodies, except for the appointment and removal of the General Director, and early termination of their powers and the establishment of their compensation and other contracts with them;
- recommendations in respect of the amount of a dividend, distributions and the payment procedure;
- recommendations in respect of the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;
- the use of our reserve fund and other funds;
- the creation of branches and representative offices;

- approval of internal documents, except for those documents whose approval falls within the competence of the company's shareholders or General Director;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- the increase of our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstance specified in our charter;
- approval of decisions on share issuances and of the prospectus relating to such share issuances, as well as of reports on the results of such share issuances;
- decision on our participation in other organizations, with the exception of participation in holding companies, commercial or industrial groups, or other associations of commercial entities, where shareholders' vote is required by our charter;
- approval of our share registrar; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. In the absence of the requisite number of directors for actions requiring a unanimous vote or majority vote of disinterested and independent directors, some of these actions may be submitted to a general meeting of shareholders for approval. A board meeting is considered duly assembled and legally competent to act when a majority of the number of directors provided for in our charter are present.

General Director and Management Board

The General Director exercises executive authority over all of our activities, except for issues assigned to the exclusive competence of the General Meeting of Shareholders and the Board of Directors. The Management Board is our collective executive body and is appointed by the Board of Directors. The main goal of our Management Board is to manage professionally our operations with the aim of ensuring our stable profitability.

Review Commission

The Review Commission, whose activities are governed by our Charter and Review Commission Regulations, oversees and coordinates audits of our financial and economic activity. The principal duties of the Review Commission are to ensure that our activities comply with applicable legislation and do not infringe shareholders' rights, and that our accounting and reporting do not contain any material misstatements. The General Meeting of Shareholders elects its members for one year. Members of our Board of Directors and our Management Board may not be appointed to the Review Commission.

The Review Commission currently consists of five members:

Name	Year of Birth	Position
Valery S. Kulikov	1963	Member of the Review Commission
Igor A. Matsak	1970	Member of the Review Commission
Olga N. Savushkina	1957	Member of the Review Commission
Galina I. Shipilova	1959	Member of the Review Commission
Natalia V. Kuracevich	1961	Member of the Review Commission

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or a member of any executive body of the company, any shareholder that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person, or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The Joint Stock Companies Law requires that an “interested party transaction” by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. An “independent director” is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company. Additionally, such person’s spouse, parents, children, adoptive parents or children, brothers or sisters may not occupy positions in the executive bodies of the company. For companies with 1,000 or fewer shareholders, 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% or more of the balance sheet value of the company’s assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2% of the company’s issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their preemptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of the issued shares; or
- where the company is merging with another company, when the latter owns more than three-fourths of the voting share capital of the company.

Major Transactions

The Joint Stock Companies Law defines a “major transaction” as a transaction, or a series of transactions, involving the acquisition or disposal, or a possibility of disposal, of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions completed in the ordinary course of business or transactions involving the placement of common shares or securities convertible into common shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders’ meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders’ meeting.

Change in Control

Anti-takeover protection

Russian legislation requires that any person that intends, either individually or together with its affiliates, to acquire 30% or more (including, for such purposes, the shares already owned by this person or its affiliates) of the common shares of a company having more than 1,000 holders of common shares must give at least 30, but no more than 90, days’ prior written notice to the company. Additionally, the Joint Stock Companies Law provides that a person acquiring either individually, or together with its affiliates, 30% or more (including, for such

purposes, the shares already owned by this person or its affiliates) of the common shares of a company with more than 1,000 holders of common shares, within 30 days of acquiring the shares, must offer to buy all of the common shares or securities that are convertible into common shares of that company at a market price which shall not be lower than the weighted average price of the common shares over the six months before the date of acquisition. These requirements also apply to any acquisitions of each subsequent 5% or more of the issued common shares of a company by a person already holding (together with its affiliates) over 30% of the issued common shares of such company. If the acquirer fails to observe these requirements, it will be limited to voting only those shares it purchased in compliance with these requirements. The requirement to make a buyout offer of securities may be waived in a company's charter or by a resolution adopted by a majority vote of a shareholders' meeting, excluding the votes of the person (and its affiliates) acquiring shares. However, new Russian securities regulations prohibit, with effect from January 1, 2006, Russian listed companies from waiving the buy-out requirement starting from the listing date or not later than one year following listing. Our charter does not contain a waiver of this requirement.

Approval of the Russian Federal Antimonopoly Service

Pursuant to Russian antimonopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of assets that (under Russian accounting standards) exceeds a certain threshold (3,000 million rubles) or companies registered as having more than a 35% share of the market in a particular commodity, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 20% of the voting share capital of the company must be approved in advance by the Federal Antimonopoly Service.

Exchange Controls

The Federal Law on Currency Regulation and Currency Control, which came into effect on June 18, 2004, empowers the government and the Central Bank of Russia to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities (including GDSs) and domestic securities (including our common shares), as well as certain types of settlements in rubles between residents and non-residents of Russia. As the new regulatory regime is very recent and untested, it is currently unclear how it will be applied in practice. In particular, it remains uncertain whether it will be more or less restrictive than the prior laws and regulations it replaced.

Capital Import and Export Restrictions

Pursuant to the Federal Law on Currency Regulation and Currency Control, the government and the Central Bank of Russia have the power to restrict, in particular, the following operations:

- investments (not involving the acquisition of securities) by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors;
- the acquisition of Russian securities by foreign investors and foreign securities by Russian investors;
- the grant or receipt of loans and credits between residents and non-residents of Russia; and
- payments for export-import transactions with settlement over 180 days (and in limited cases, from three to five years) following completion.

Restrictions that can be introduced include:

- a requirement to perform the operations listed above through special bank accounts with authorized Russian banks, or the requirement to use a special account; and
- a requirement to deposit in a special non-interest bearing account with an authorized Russian bank, prior to the performance of the operations listed above, a monetary sum in rubles of:
 - up to 100% of the amount of the foreign currency operation in question for a period of time not exceeding 60 days;
 - up to 50% of the amount of the foreign currency operation in question for a period of time not exceeding two years; or
 - up to 20% of the amount of the foreign currency operation in question for a period of time not exceeding one year.

As of the date hereof, the requirement to use a special account has been introduced in respect of acquisitions of Russian securities by foreign investors and foreign securities by Russian investors and in respect of the grant or receipt of loans and credits between residents and non-residents of Russia. In particular, the following operations are subject to the requirement to use special accounts:

- the receipt by residents of Russia of foreign currency loans and credits with maturities of less than three years granted by non-residents of Russia;
- the acquisition of foreign securities (such as GDSs) by Russian investors from non-residents of Russia; and
- the acquisition of Russian securities (such as our shares) by foreign investors from residents of Russia.

As of the date hereof, the deposit requirement has been introduced, in particular, in respect of:

- the receipt by residents of Russia of foreign currency loans and credits with maturities of less than three years in the amount of 2% of the loan/credit for one year granted by non-residents of Russia; and
- the acquisition of foreign securities (such as GDSs) for foreign currency consideration by Russian investors from non-residents of Russia in the amount of 25% of the sum paid for the securities for 15 days.

While restrictions imposed on foreign currency operations are currently limited in scope, the statutory powers of the government and the Central Bank of Russia enable them to:

- increase or decrease the amount and/or time period of the deposit requirements; and/or
- extend the deposit requirements and other restrictions to other types of foreign currency operations specified by the Federal Law on Currency Regulation and Currency Control.

Additionally, Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions covering, in particular, certain types of secured financing) and convert 10% of export receivables in foreign currency into rubles within seven business days of the date on which they were received. Furthermore, certain types of cross-border operations are required to be performed only in rubles, including, for example, transactions with domestic securities, such as our shares, between residents and non-residents of Russia.

Provisions on the remittance of dividends, interest or other payments to Non-residents

In its Information Letter of March 31, 2005 No. 2, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are not Russian residents. We believe that this declaration has not yet been widely tested in practice and we can give no assurance that it will not be reversed in the future. If Russian companies were again required to pay all dividends on common shares in rubles, current Russian legislation permits such ruble funds to be converted into U.S. dollars by the Depositary without restriction. The CBR has the right to introduce a 100% reserve requirement for the acquisition of foreign currency for a period of up to 60 calendar days.

The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble- and ruble-denominated investments.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint-stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of our shares.

DESCRIPTION OF THE GLOBAL DEPOSITARY SHARES

Deutsche Bank Trust Company Americas has agreed to act as the depositary for the GDSs. The Depositary's principal New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom. In this summary, we use the term "GDSs" to refer to the Rule 144A GDSs and to the Regulation S GDSs. GDSs are represented by certificates that are commonly known as "Global Depositary Receipt Certificates" or "GDR Certificates". The GDSs we are selling in the United States are referred to and will be issued as Rule 144A GDS and the GDSs we are selling outside the United States are referred to and will be issued as the Regulation S GDSs. GDSs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed Deutsche Bank Ltd. as the custodian for the safekeeping of the securities, cash or other property on deposit, or the Custodian. The Custodian's principal office is at 4 Shepkina Street, Moscow 129090, Russia.

We have appointed the Depositary pursuant to two separate deposit agreements, one for the Rule 144A GDSs (hereinafter, the Rule 144A Deposit Agreement), and one for the Regulation S GDSs (hereinafter, the Regulation S Deposit Agreement). Copies of the Deposit Agreements are available for inspection by any holder of the GDSs at the principal offices of the Depositary during business hours, provided that the inspection shall not be for the purpose of communicating with GDS holders in the interest of a business or object other than our business or a matter related to the Deposit Agreements or the GDSs. This is a summary description of the material terms of the GDSs and of your material rights as an owner of the GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary.

Each GDS represents the right to receive 10 Shares on deposit with the Custodian. Each GDS will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDS but that has not been distributed to the owners of GDSs because of legal restrictions or practical considerations.

If you become an owner of GDSs, you will become a party to the applicable Deposit Agreement and therefore will be bound by its terms and by the terms of the GDR Certificate that represents your GDSs. The applicable Deposit Agreement and the GDR Certificate specify our rights and obligations as well as your rights and obligations as owner of GDSs and those of the Depositary. As a GDS owner you appoint the Depositary as your attorney-in-fact, with full power to delegate, to act on your behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement.

Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as GDS owner. Please consult with your broker or bank to determine what those procedures are. In this section "Description of the Global Depositary Shares", when we refer to "you" or "your", we assume the reader owns GDSs and will own GDSs at the relevant time, and, when we refer to a "holder", we assume the person owns GDSs and such person's agent (*i.e.*, broker, custodian, bank or trust company) is the holder of the applicable GDS.

No temporary Master GDSs or other temporary documents of title have been or will be issued in connection with the Offering.

Distinctions between Rule 144A GDSs and Regulation S GDSs

The Rule 144A GDSs and the Regulation S GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDSs are not *per se* "restricted securities" under the U.S. securities laws, but we have imposed certain contractual restrictions on the Regulation S GDSs in an effort to prevent the transfer of Regulation S GDSs in violation of the U.S. securities laws.

The differences between the Regulation S GDSs and the Rule 144A GDSs and the restrictions imposed on the Rule 144A GDSs and the Regulation S GDSs cover primarily the following:

- The restrictions on the transfers, deposits and withdrawals of the Shares represented by the GDSs. See “— Transfer Restrictions”.
- The eligibility for book-entry transfer. See “— Settlement and Safekeeping.”
- Special restrictions on deposits and withdrawals apply to our affiliates. See “— Ownership of GDSs by our affiliates” below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depositary to treat the Regulation S GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of Regulation S GDSs and vice versa.

Settlement and Safekeeping

Rule 144A GDSs

The Depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in the offering will be registered in the name of Cede & Co. (DTC’s nominee). One Master Rule 144A GDR Certificate will represent all Rule 144A GDSs that will be issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive certificates representing their ownership interests in the Rule 144A GDSs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depository cannot be appointed, individual Rule 144A GDR Certificates representing the applicable number of Rule 144A GDSs held by each owner of Rule 144A GDSs will be printed and delivered to the relevant Rule 144A GDS owners.

Regulation S GDSs

The Depositary has made arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDSs. All Regulation S GDSs issued in the offering will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depository for Euroclear and Clearstream. One Master Regulation S GDR will represent all Regulation S GDSs issued to and registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch. Euroclear and Clearstream will hold the Regulation S GDSs on behalf of their participants (any such participant of Euroclear or Clearstream, a “Participant”), and, transfers will be permitted only within Euroclear and Clearstream in accordance with usual rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDSs are to be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream, acting in each case on behalf of Regulation S GDS owners. Owners of Regulation S GDSs will not receive certificates representing their ownership interests in the Regulation S GDSs, except in the event that use of the Euroclear and Clearstream book-entry system for the Regulation S GDSs is discontinued.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDSs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available Regulation S GDSs in physical certificated form.

Transfer Restrictions

The GDSs may be reoffered, resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Restrictions upon the transfer of GDSs

Rule 144A GDSs

The Rule 144A GDSs may be reoffered, resold, pledged or otherwise transferred only:

- (i) outside the United States in accordance with Regulation S;
- or
- (ii) to a QIB in a transaction meeting the requirements of Rule 144A;
- or
- (iii) pursuant to Rule 144 under the U.S. Securities Act, if available;
- or
- (iv) pursuant to an effective registration statement under the U.S. Securities Act.

Please also see “— Ownership of GDSs by our affiliates” below.

Restrictions upon the deposit of Shares

Rule 144A GDSs

Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is:

- (i) not NLMK or an affiliate of NLMK or a person acting on behalf of NLMK or an affiliate of NLMK;
- and
- (ii) a QIB or a person outside the United States that is not a U.S. Person (as defined in Regulation S).

Regulation S GDSs

Regulation S GDSs may be reoffered, resold, pledged or otherwise transferred only in compliance with the Securities Act and applicable laws of the states, territories and possessions of the United States governing the offer and sale of securities.

Regulation S GDSs

Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is:

- (i) not NLMK or an affiliate of NLMK or a person acting on behalf of NLMK or an affiliate of NLMK;
- and
- (ii) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the Shares to be deposited from NLMK or an affiliate of NLMK;
- and
- (iii) is a person outside the United States that is not a U.S. person (as defined in Regulation S).

Shares withdrawn from deposit under the Rule 144A Deposit Agreement will not be accepted for deposit pursuant to the Regulation S Deposit Agreement unless such shares are not and may not be deemed to be “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act.

The Depositary and NLMK will waive deposit certifications by the Selling Shareholder with respect to Shares to be sold in the form of GDSs pursuant to the offering and the exercise, if any, of the over-allotment option. Please also see “— Ownership of GDSs by our affiliates” below.

Restrictions upon the withdrawal of Shares

Rule 144A GDSs

Shares may be withdrawn from the Rule 144A Deposit Agreement only by:

- (i) a person other than a U.S. person (as defined in Regulation S) outside the United States who will be the beneficial owner of the Shares upon withdrawal;

or
- (ii) a QIB who:
 - (a) has sold the Rule 144A GDSs to another QIB in a transaction meeting the requirements of Rule 144A, or to a person other than a U.S. person (as defined in Regulation S) outside the United States in accordance with Regulation S; or
 - (b) will be the beneficial owner of the Shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the Shares so withdrawn.

Regulation S GDSs

Shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDSs.

Please also see “— Ownership of GDSs by our affiliates” below.

We may restrict transfers of the Shares where such transfer might result in ownership of Shares exceeding the limits applicable to the Shares under applicable law or our charter. We may also restrict transfers of the GDSs where such transfer may result in the total number of Shares represented by the GDSs owned by a single holder or beneficial owner to exceed any such limits. We may, in our sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDSs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the Shares represented by the GDSs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our charter.

The registration of transfer of GDR certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, us, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by us or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDSs or Shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the Shares, or any meeting of our shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDR certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at our reasonable request.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDSs held as of a specified GDS record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by us for the Shares.

Distributions of cash

Whenever we make a cash distribution in respect of securities on deposit with the Custodian, we will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution

of the U.S. dollars to the holders, if in the reasonable judgment of the Depositary it is practicable and lawful. See “— Foreign Currency Conversion” below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing any distribution received upon our liquidation or the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit. It is possible that, in the event of our liquidation, the Deposit Agreements will have been terminated prior to the receipt by the Depositary of any distributions arising upon that liquidation. See “— Amendments and Termination”.

Distributions of shares

Whenever we make a free distribution of shares in respect of the Shares on deposit with the Custodian, we will deposit the applicable number of Shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDSs representing the Shares deposited or modify, to the extent permissible by law, the GDS-to-Shares ratio, in which case each GDS you hold will represent rights and interests in the additional Shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-Shares ratio upon a distribution of Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new Shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law (*i.e.*, the U.S. securities laws). If the Depositary does not distribute new GDSs as described above, it may sell the Shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distributions of rights

Whenever we intend to distribute rights to purchase additional Shares, we will give timely prior notice to the Depositary and state whether or not we wish such rights to be made available to you. If we wish such rights to be made available to you, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights only if the Depositary has received our request to make such distribution in a timely manner, and the Depositary shall have determined that it is lawful and reasonably practicable to make the rights available to holders of GDSs, and we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). You will have to pay fees, expenses, and any taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Shares other than in the form of GDSs.

The Depositary will not distribute the rights to you if:

- we do not request that the rights be distributed to you in a timely manner, or we request that the rights not be distributed to you; or
- we fail to deliver satisfactory documents to the Depositary;
- it determines that it is not reasonably practicable to distribute the rights; or
- any rights made available are not exercised and appear to be about to lapse.

The Depositary will sell the rights that are not exercised or not distributed if it determines that such sale is lawful and reasonably practicable in a riskless principal capacity, at such place and upon terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (i) any failure to determine whether it may be lawful or practicable to make such rights available to holders in general or to you in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the holders on our behalf in connection with the rights distribution. There can be no assurance that holders in general or you in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of Shares or to exercise such rights.

Elective distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional Shares, we will give timely prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it has received timely prior notice from us, if it is reasonably practicable and if we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDSs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will, to the extent permitted by law, receive either cash or additional GDSs, depending on what a shareholder in Russia would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

The Depositary is not obligated to make available to holders a method to receive the elective dividend in the Shares rather than in the form of GDSs. There can be no assurance that holders of GDSs or beneficial interests therein generally, or you in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Shares.

Other distributions

Whenever we intend to distribute property other than cash, Shares or rights to purchase additional Shares, we will timely notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from us, it is reasonably practicable to distribute such property to you and if we have provided all of the documentation contemplated in the Deposit Agreements (such as opinions to address the lawfulness of the transaction), the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may, after consultation with us to the extent reasonably practicable, sell all or a portion of the property received.

The Depositary will not distribute the property to you and will sell the property if:

- we do not request that the property be distributed to you or we do not make such request in a timely manner or we ask that the property not be distributed to you;
- we fail to deliver satisfactory documents to the Depositary; or
- the Depositary determines that all or a portion of the distribution to you is not lawful or reasonably practicable.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems

practicable under the circumstances. The same procedure would be applied to any distribution in a form other than cash received by the Depositary in the event of our liquidation. It is possible that, in the event of our liquidation, the Deposit Agreements will have been terminated prior to the receipt by the Depositary of any distribution arising upon that liquidation. See “— Amendments and Termination”.

Redemption

Whenever we decide to redeem any of the securities on deposit with the Custodian, we will give timely prior notice to the Depositary in advance. If the Depositary has received timely prior notice from us, determined that such redemption is practicable and received from us all of the documentation contemplated in the Deposit Agreements (such as opinions to address the lawfulness of the transaction), the Depositary will mail notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the Shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into U.S. dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDSs to the Depositary. (See “— Foreign Currency Conversion” below for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful.) You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and governmental charges upon the redemption of your GDSs. If less than all GDSs are being redeemed, the GDSs to be redeemed will be selected by lot or on a *pro rata* basis, as the Depositary may determine.

Changes Affecting Shares

The Shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting us.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Shares shall, to the extent permitted by law, be treated as new Shares under the Deposit Agreements, and the GDR certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDSs representing the right to receive such replacement securities, the Depositary in such circumstances may with our approval, and shall if we so request and provide to the Depositary a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR certificates to you or make appropriate adjustments in its records, or call for the exchange of your existing GDSs for new GDSs. If the Depositary may not lawfully distribute such securities to you, the Depositary may with our approval sell such securities and distribute the proceeds to you as in the case of a cash distribution, and shall do so if we so request and provide to the Depositary a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and governmental charges upon the redemption of your GDSs.

The Depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to holders of GDSs in general or to you in particular, (ii) any foreign exchange exposure or loss incurred in connection with such a sale, or (iii) any liability to the purchaser of such securities.

Issuance of GDSs upon Deposit of Shares

Subject to limitations set forth in the Deposit Agreements and the GDSs, the Depositary may create GDSs on your behalf if you or your broker deposit Shares with the Custodian. The Depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit Shares and receive GDSs may be limited by U.S., English and Russian legal considerations applicable at the time of deposit.

The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by us that such deposit would result in any violation of applicable laws, including ownership restrictions under Russian laws. The Depositary will also refuse to accept certain Shares for deposit under the Rule 144A Deposit Agreement if notified in writing by us that the 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 (i) neither the Shares nor the Rule 144A GDSs to be deposited were, when issued, of the same class (within the meaning of Rule 144A(d)(3)(i)), as the securities so listed or quoted and (ii) any Shares presented for deposit are eligible for resale pursuant to Rule 144A. The Depositary shall also, upon receipt of written notice from us, limit at any time the number of Shares accepted for deposit under the terms of the Deposit Agreements so as to enable us to comply with ownership restrictions imposed by applicable law or our charter or otherwise imposed by us in our discretion, or otherwise to comply with applicable law.

The issuance of GDSs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the Custodian. The Depositary will only issue GDSs in whole numbers.

When you make a deposit of Shares, you will be responsible for transferring good and valid title to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, you will be deemed to represent and warrant that:

- the Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all preemptive (and similar) rights, if any, with respect to such Shares have been validly waived or exercised;
- you are duly authorized to deposit the Shares;
- the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of Shares under the Regulation S Deposit Agreement, the Shares are not, and the Regulation S GDSs issuable upon such deposit will not be, “Restricted Securities” (as defined in the Regulation S Deposit Agreement), except in the case of deposits of a kind described in “— Ownership of GDSs by our affiliates” below;
- the Shares presented for deposit have not been stripped of any rights or entitlements;
- the Shares are not subject to any unfulfilled requirements of Russian law; and
- except as provided in the Deposit Agreements and summarized under “— Ownership of GDSs by our affiliates” below, you are not, and you shall not become while holding GDSs, one of our affiliates.

If any of the representations or warranties are incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit Shares to receive Rule 144A GDSs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the Shares and the Rule 144A GDSs have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Rule 144A GDSs may not be offered sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon;
- you are not an affiliate of NLMK and you are not acting on behalf of NLMK or one of its affiliates;
- you are (i) a QIB or (ii) a person (other than a U.S. person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the Shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:
 - to a QIB in a transaction meeting the requirements of Rule 144A; or
 - outside the United States to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S; or
 - in accordance with Rule 144 under the U.S. Securities Act, if available; or
 - pursuant to an effective registration statement under the U.S. Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit Shares to receive Regulation S GDSs, you will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- you acknowledge that the Shares and the Regulation S GDSs have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Regulation S GDSs may not be offered sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon;
- you are not an affiliate of NLMK and you are not acting on behalf of NLMK or one of its affiliates;
- you are, or at the time the Shares are deposited you will be, the beneficial owner of the Shares in the form of GDSs to be issued upon deposit of such Shares;
- you are a person (other than a U.S. person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- you are not in the business of buying and selling securities or, if you are in such business, you did not acquire the Shares presented for deposit from us or any of our affiliates.

A copy of the form of deposit certification for Regulation S GDSs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

Withdrawal of Shares Upon Cancellation of GDSs

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, as a holder you will be entitled to present your GDSs to the Depositary for cancellation and then receive the corresponding number of underlying Shares at the Custodian's offices. Your ability to withdraw the Shares may be limited by U.S. and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the Shares represented by your GDSs, you will be required to pay to the Depositary the fees for cancellation of the GDSs and any charges and taxes payable upon the transfer of the Shares being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDSs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDS registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the Shares represented by your GDSs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that if GDSs representing fractional securities are presented for cancellation, the Depositary shall be entitled to sell such fractional securities and remit the proceeds of such sale to you net of fees, expenses, charges and taxes.

When you request the withdrawal of the Shares represented by your Rule 144A GDSs, you will be required to provide the Depositary with a withdrawal certification stating, *inter alia*, that:

- (A) you acknowledge that the Shares represented by your Rule 144A GDSs have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Rule 144A GDRs may not be offered sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon; and
- (B) you certify that:
 - (1) you are a QIB, acting for your own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDSs presented for cancellation; and
 - (a) either:
 - you have sold or agreed to sell the Shares to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S;
 - you have sold or agreed to sell the Shares to a QIB in a transaction meeting the requirements of Rule 144A; or

- you will be the beneficial owner of the Shares upon withdrawal and:
 - you (or the person on whose behalf you are acting) will sell the Shares only to another QIB in a transaction meeting the requirements of Rule 144A; to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S; in accordance with Rule 144A, if available; or pursuant to an effective registration statement under the U.S. Securities Act; and
 - you will not deposit the Shares in any depositary receipts facility that is not a “restricted” depositary receipts facility;

OR

- (2) you are a person (other than a U.S. person, as defined in Regulation S) located outside the United States and acquired or agreed to acquire the Shares outside the United States and will be the beneficial owner of the Shares upon withdrawal.

Holders of Regulation S GDSs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of an exchange of Rule 144A GDSs for sale of Regulation S GDSs by one of our affiliates. See “— Ownership of GDSs by our affiliates” below.

Proofs, Certificates and Other Information

You may be required (i) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDSs, compliance with all applicable laws and the terms of the Deposit Agreements, and (ii) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as we may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary may withhold the execution or delivery or registration of transfer or cancellation of any GDR certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary’s, the Registrar’s (as defined in the Deposit Agreements) and our reasonable satisfaction.

Ownership of GDSs by Our Affiliates

We permit our affiliates to deposit Shares against the issuance of Rule 144A GDSs, so long as they satisfy the requirements, including delivery of the requisite certifications (which differ in certain respects from certifications for non-affiliates) to the Depositary as required by the Rule 144A Deposit Agreement. We also permit our affiliates to exchange their Rule 144A GDSs for Regulation S GDSs solely to allow them to sell their GDSs in transactions meeting the requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. We do not otherwise permit our affiliates to deposit Shares against the issuance of Regulation S GDSs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDSs to be issued in respect of the Shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDSs by our affiliates are more fully described in the Deposit Agreements.

Voting Rights

As a holder, you generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the Shares represented by your GDSs. The voting rights of holders of Shares are described in “Description of Share Capital and Certain Requirements of Russian Legislation”.

Upon our timely written request, and provided no U.S., Russian or English legal prohibitions (including the rules of the London Stock Exchange or the rules of Russian stock exchanges on which the Shares are listed or admitted to trading) exist, the Depositary will distribute to you any notice of shareholders’ meetings or solicitation of consents or proxies from holders of Shares received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the Shares represented by the GDSs.

If the Depositary timely receives voting instructions from a holder of GDSs in the manner specified by the Depositary, it will endeavor — insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, our charter and the terms of our Shares — to vote or cause the Custodian to vote the Shares represented by the holder’s GDSs in accordance with such voting instructions. Russian securities

regulations expressly permit a Depositary to split the vote of Shares registered in its name in accordance with the instructions from GDS holders. However, because the Depositary does not have express statutory authority to split the vote with respect to the Shares in accordance with instructions from GDS holders, and given the untested nature of such securities regulations, the Depositary may refrain from voting at all unless all GDR holders have instructed it to vote the Shares in the same manner. Consequently, you may have significant difficulty in exercising voting rights with respect to the underlying Shares. See “Risk Factors — Risks Relating to the Shares, the GDSs and the Trading Market — Voting rights with respect to the Shares represented by the GDSs are limited by the terms of the Deposit Agreements for the GDSs and relevant requirements of Russian law”.

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, attempt to exercise the right to vote, or in any way make use of, for purposes of establishing a quorum or otherwise, the Shares except pursuant to and in accordance with instructions from holders of the GDSs. If the Depositary timely receives voting instructions from a holder of GDSs which fail to specify the manner in which the Depositary is to vote the Shares represented by such holder’s GDSs, the Depositary will deem the holder to have instructed the Depositary not to vote the Shares with respect to the items for which no instruction was given. Securities for which no specific voting instructions are received by the Depositary shall not be voted.

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the Shares if the taking of such action would violate U.S., Russian or English legal prohibitions, including the rules of the London Stock Exchange or the rules of Russian stock exchanges on which the Shares are listed or admitted to trading. We have agreed in the Deposit Agreements that we shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDS holders will not be voted. See “Risk Factors — Risks Relating to the Shares, the GDSs and the Trading Market — Voting rights with respect to the Shares represented by the GDSs are limited by the terms of the Deposit Agreements for the GDSs and relevant requirements of Russian law”.

Fees and Charges

<u>Service</u>	<u>Fees</u>
Issuance of GDSs*	Up to \$0.05 per GDS issued
Cancellation of GDSs	Up to \$0.05 per GDS cancelled
Distribution of cash dividends or other cash distributions	Up to \$0.02 per GDS held
Distribution of GDSs pursuant to stock dividends, free stock distributions or exercise of rights	Up to \$0.05 per GDS issued
Distribution of securities other than GDSs or rights to purchase additional GDSs	Up to \$0.05 per Share (or Share equivalent) distributed
Annual Depositary Services Fee	Annually up to \$0.02 per GDS held at the end of each calendar year except to the extent of any cash dividend fee charged during such calendar year
Transfer of GDSs	\$1.50 per GDR certificate presented for transfer
Inspection of share Register	Up to \$0.01 per GDS held as of the applicable record date to cover expenses incurred by the Depositary, the Custodian or their respective agents in connection with the inspection of the share register maintained by the Russian share registrar, provided that such fee will be charged to any GDS holder not more frequently than once in any calendar year

* No fee shall be incurred or charged in connection with the deposit of Shares in the initial offering.

As a GDS holder you will also be responsible to pay the following charges incurred by the Depositary:

- taxes (including applicable interest and penalties) and governmental charges;
- fees for the transfer and registration of Shares charged by the share registrar (*i.e.*, upon deposit and withdrawal of Shares);
- fees and expenses incurred for converting foreign currency into U.S. dollars and compliance with exchange control regulations;
- expenses for cable, telex and fax transmissions and for delivery of securities; and
- fees and expenses incurred in connection with the delivery or servicing of Shares on deposit.

We have agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depositary. Holders of GDSs will receive prior notice of such changes.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your prior consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). We will not consider to be materially prejudicial to your substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDSs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges you are required to pay.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDSs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent you from withdrawing the Shares represented by your GDSs. Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, we and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 30 days notice or the acceptance of appointment by a successor depositary, or we may remove the Depositary, with such removal to take effect upon the later of 30 days notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by us, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDSs at least 30 days before termination.

Upon termination, the following will occur under the Deposit Agreements:

- for a period of six months after termination, you will be able to request the cancellation of your GDSs and the withdrawal of the Shares represented by your GDSs and the delivery of all other property held by the Depositary in respect of those Shares on the same terms as prior to the termination, including the payment of any applicable taxes or governmental charges. During such six months' period the Depositary will continue to collect all distributions received on the Shares on deposit (*i.e.*, dividends) but will not distribute any such property to you until you request the cancellation of your GDSs.
- after the expiration of such a six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold the proceeds from such a sale and any other funds then held for the holders of GDSs in an unsegregated, non-interest bearing account, without liability for interest. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Books of Depositary

The Depositary will maintain GDS holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDSs, at its principal office in London as well. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the Deposit Agreements.

The Depositary will maintain facilities in New York and London to record and process the issuance, cancellation, combination, split-up and transfer of GDSs. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

We will promptly transmit to the Depositary those communications that we make generally available to our shareholders. If those communications were not originally in English, we will translate them. Upon our request and at our expense, the Depositary will arrange for the mailing of copies of such communications to all GDS holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- Neither we nor the Depositary, nor any of our or their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Shares or in respect of the GDR certificates, which in our or their respective opinion may involve us or them (as the case may be) in expense or liability, unless an indemnity satisfactory to us or them (as the case may be) against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Shares, for the validity or worth of the Shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of our notices.
- The Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the Shares or other deposited securities (or any distribution in respect thereof).
- The Depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided the Depositary performed its obligations as Depositary without negligence or bad faith.
- We and the Depositary and any of our or the Depositary's respective directors, employees, agents or affiliates will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.
- We and the Depositary and any of our or the Depositary's respective directors, employees, agents or affiliates disclaim any liability if we are prevented or forbidden from or delayed in acting on account of any law or regulation, any provision of our charter, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure).

- We and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our charter or in any provisions of securities on deposit.
- We and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreements, made available to you.
- We and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.
- The Depositary disclaims liability for any actions taken in accordance with our instructions to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the Shares under applicable law or our Charter.

Indemnification

The Depositary has agreed to indemnify us and our directors, officers, employees, agents and affiliates against, and hold each of us harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever (including the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted by the Depositary or the Custodian, provided, that the Custodian is a branch or subsidiary of Deutsche Bank AG at the time of such act or omission, under the Deposit Agreements due to the negligence or bad faith of the Depositary or the Custodian.

We have agreed to indemnify the Depositary, the Custodian and any of their respective directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever (including the reasonable fees and expenses of counsel) that may arise, *inter alia*, (i) out of any offer or sale of the GDSs or the Shares, (ii) out of any offering document in respect thereof, except to the extent relating to any information provided by the Depositary, or (iii) out of acts performed or omitted in accordance with the provisions of the Deposit Agreements, in any such case by the Depositary, the Custodian or any of their respective directors, officers, employees, agents and affiliates, except to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or by us or any of our directors, officers, employees, agents and affiliates.

Pre-Release Transactions

The Depositary may, in certain circumstances, issue GDSs before receiving a deposit of Shares or release Shares before receiving GDSs for cancellation. These transactions are commonly referred to as “pre-release transactions”. The Deposit Agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.* the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all Shares on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDSs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian are not obligated to take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations.

The Depositary is under no obligation to provide you with any information about our tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by you on account of your ownership of the GDSs, including without limitation by virtue of our tax status.

By purchasing GDSs, you agree to indemnify the Depositary, us, the Custodian and any of their or our agents, officers, employees and affiliates for, and to hold each of them and us harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you as a GDS holder.

Disclosure of Interests

By purchasing GDSs, you agree to comply with requests from us or the Depositary pursuant to Russian law, the rules and requirements of the Russian stock exchanges, any other stock exchange on which the Shares are, or may be, registered, traded or listed, or our charter, which are made to provide information, *inter alia*, as to the capacity in which you hold or own a beneficial interest in the GDSs (and the Shares, as the case may be) and regarding the identity of any other person interested in such GDSs, the nature of such interest and various related matters, whether or not you are a holder or owner of a beneficial interest in the GDSs at the time of such a request.

Foreign Currency Conversion

The Depositary will arrange for the conversion into U.S. dollars of all foreign currency received if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. You will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of U.S. dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable opinion of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the applicable holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the rubles, you may lose some or all of the value of the distribution.

Governing Law and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDSs, the rights of holders of the Shares and other deposited securities and our obligations and duties in respect of such holders shall be governed by the laws of Russia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreements owners of GDSs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDSs, the Deposit Agreements, the Shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS, INCLUDING EACH HOLDER AND BENEFICIAL OWNER OF GDSs, IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE COMPANY AND/OR THE DEPOSITARY DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE SHARES, THE DEPOSITED SECURITIES, THE GDSs, THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED UNDER THE DEPOSIT

AGREEMENTS, OR THE BREACH THEREOF, INCLUDING WITHOUT LIMITATION ANY QUESTION REGARDING EXISTENCE, VALIDITY OR TERMINATION (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY TO THE DEPOSIT AGREEMENTS (INCLUDING FOR AVOIDANCE OF DOUBT EACH HOLDER AND BENEFICIAL OWNER) IRREVOCABLY AND UNCONDITIONALLY WAIVES AND AGREES NOT TO ASSERT ANY RIGHT IT MAY HAVE TO COMMENCE, MAINTAIN OR SEEK TO MAINTAIN ANY CLASS ACTION, CLASS SUIT OR CLASS PROCEEDING, IN ANY COURT OR ARBITRATION, ARISING OUT OF OR RELATING TO THE SHARES OR OTHER DEPOSITED SECURITIES, GDSs OR THE DEPOSIT AGREEMENTS, OR ANY TRANSACTION CONTEMPLATED THEREIN, OR THE BREACH THEREOF, INCLUDING WITHOUT LIMITATION ANY QUESTION REGARDING EXISTENCE, VALIDITY OR TERMINATION.

Russian Share Register

We have appointed R-Stinol LLC as the registrar of our Shares in Russia and we have agreed to continue such appointment so long as the GDSs remain outstanding or any of the Deposit Agreements remain in force.

We have agreed in the Deposit Agreements to:

- take any and all actions reasonably necessary to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;
- provide or use our reasonable efforts to cause the share registrar to provide unrestricted access by the Depositary and the Custodian to the register of shareholders during ordinary business hours in Moscow (and not less than monthly) so as to permit verification of the registration of Shares represented by the GDSs in the name of the Depositary or the Custodian or their respective nominees;
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (i) of any material and uncured breaches by the share registrar of the terms of the Deposit Agreements, and (ii) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreements relating to it;
- use our reasonable efforts to cause the share registrar to promptly (and, in any event, within 3 business days in Moscow, Russia of receipt by the share registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the share registrar as soon as practicable thereafter) re-register the Shares being deposited into or withdrawn from the GDR facilities; and
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary in writing (i) of any alleged unlawful elimination of shareholders from the shareholder register (or any alleged unlawful alteration of shareholder records), (ii) of any alleged unlawful refusal to register shares, and (iii) any time the share registrar holds the Shares for its own account.

In the Deposit Agreements, we have agreed to assume sole liability for:

- any act or failure to act of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates);
- unavailability of Shares on deposit under the terms of the Deposit Agreements; and
- failure of the Depositary to make any distributions contemplated by the Deposit Agreements as a result of our actions or those of our agents, the actions of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates), and actions of our present or future charter (or other instrument governing the deposited securities), and any provisions of any securities we issue or distribute and any related distribution or offering.

The Depositary has agreed, for the benefit of the owners of GDSs, to confirm not less frequently than monthly, the number of Shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreements. We have agreed with the Depositary that the Custodian shall maintain in custody duplicate share register extracts (or other evidence of verification) provided to the Depositary, the Custodian or their

respective agents, and that any known material discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to our attention promptly. We will use our reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event we are unable to obtain such reconciliation of records and the discrepancy exceeds 0.5% of the number of Shares identified on the records of the Depositary or the Custodian as being on deposit under the terms of any one of the Deposit Agreements, we will give notice thereof to the owners of GDSs (through the Depositary) and the Depositary shall cease issuance of new GDSs until the records have been appropriately reconciled.

U.S. Securities Act and Other Legends

Legends for Rule 144A GDSs

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF NLMK AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY 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 THE RULE 144A GDSs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF NLMK IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Legends for Regulation S GDSs

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. 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 OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS EACH SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF NLMK AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF NLMK IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA’S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

TAXATION

The following discussion describes the material Russian federal tax, U.S. federal income tax and United Kingdom tax consequences of the acquisition, ownership and disposition of Shares and GDSs by a beneficial owner. This discussion addresses only beneficial owners that acquire Shares or GDSs in this offering. This discussion does not cover all aspects of Russian, U.S. or United Kingdom taxation that may be relevant to the acquisition, ownership or disposition of Shares or GDSs by prospective investors in light of their particular circumstances or to persons subject to special rules such as dealers and tax-exempt investors. This discussion is based on the Russian federal tax, U.S. federal income tax and United Kingdom tax laws and regulations as currently in effect and all subject to change, possibly with retroactive effect. This discussion does not address any tax consequences arising under the laws of any other jurisdiction.

THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY. WE URGE PROSPECTIVE INVESTORS TO CONSULT THEIR OWN TAX ADVISERS PRIOR TO INVESTING AS TO THE PARTICULAR RUSSIAN FEDERAL TAX, U.S. FEDERAL INCOME TAX AND UNITED KINGDOM INCOME TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF SHARES OR GDSs, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF A DOUBLE TAX TREATY BETWEEN RUSSIA AND THEIR COUNTRY OF RESIDENCE, IN LIGHT OF THEIR PARTICULAR FACTS AND CIRCUMSTANCES, AS WELL AS THE APPLICABILITY AND EFFECT OF STATE, PROVINCIAL AND OTHER LOCAL TAXES AND FOREIGN TAX LAWS.

Certain Russian Tax Law Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the GDSs and Shares and to the purchase, ownership and disposition of GDSs and Shares by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on 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, and 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 Shares and GDSs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDSs are characterised by uncertainties and by an absence of interpretative guidance. 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 a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “non-resident holder” means (i) a physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) or (ii) a legal person or organisation, in each case not organised under Russian law, that holds and disposes of GDSs otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “Russian resident holder” means (i) a physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) or (ii) a legal person or organization, in each case organized under Russian law, or (iii) a legal person or organization, in each case organized under a foreign law, that holds and disposes of GDSs or Shares through its permanent establishment in Russia.

Taxation of dividends

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

Russian resident holders

Shares

Dividends paid to a holder of our Shares that is a Russian legal entity or who is an individual and Russian tax resident will be subject to Russian withholding tax at the rate of 9%.

It is not clearly stated in the Russian Tax Code which rate of withholding tax should apply to dividends payable to a holder of our Shares that is a permanent establishment of a foreign legal entity (or organization). According to the recommendations issued by the Russian tax authorities, withholding tax at the rate of 9% should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organization), provided that there is a double tax treaty between Russia and the country of tax residency of the respective foreign legal entity and that treaty contains non-discrimination provisions. Otherwise, a 15% tax rate should apply. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate, no assurance can be given that the application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by the Russian tax authorities.

GDSs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDSs. In the absence of any official interpretative guidance on the beneficial ownership concept in Russia and the fact that the Depositary (and not the holders of the GDSs) is the legal holder of the shares under Russian law, we will likely withhold tax at applicable domestic rates on dividends payable to non-resident holders (as described below). There is also no established procedure for refund of tax withheld from dividends payable through the Depositary to Russian resident holders of GDSs.

In view of the foregoing, we urge Russian residents to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDSs.

Non-resident holders

Shares

Dividends paid to a non-resident holder of our common shares generally will be subject to Russian withholding tax, which will be withheld by us acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity (or organization) or an individual. Dividends paid to a non-resident holder that is a legal entity (or organization) generally will be subject to Russian withholding tax at a rate of 15%. Dividends paid to non-resident individual holders will be subject to Russian withholding tax at a rate of 30%.

Withholding tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of the non-resident holder of our common shares. For example, 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 “U.S.-Russia Tax Treaty”), provides for reduced withholding rates on dividends paid to U.S. holders who are beneficial owners of the dividends. For example, a 10% rate applies to dividends paid to U.S. holders that own less than 10% of the entity’s outstanding shares and a 5% rate applies to dividends paid to U.S. holders that are companies and that own 10% or more of the entity’s outstanding shares. The Convention Between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the “U.K.-Russia Tax Treaty”), also provides for a 10% withholding rate on dividends paid to U.K. holders who are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

GDSs

Notwithstanding the foregoing, treaty relief may not be available to non-resident holders of GDSs because of the absence of any official interpretative guidance on the beneficial ownership concept in Russian taxation and the fact that the Depositary (and not the holders of the GDSs) is the legal holder of the shares under Russian law.

In the absence of any official clarification from the Russian tax authorities on the application of relevant double tax treaties, we likely will not be able to apply the reduced rates and will likely withhold tax at applicable domestic rates on dividends payable on common shares represented by GDSs. Although non-resident holders of GDSs may apply for a refund of a portion of the withholding tax under an applicable double tax treaty, we cannot assure you that the Russian tax authorities will grant a refund. See “Tax treaty procedures”.

Taxation of capital gains

Russian resident holders

Legal entities and organizations

Capital gains arising from the sale of Shares or GDSs by any non-individual Russian resident holder will be taxable at the regular Russian tax rate of 24%. Russian tax legislation contains a requirement that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profit from operations with securities that are not quoted on a stock exchange and from operating profit. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of the Shares or GDSs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer license.

Individuals

Capital gains arising from the sale, exchange or other disposition of Shares or GDSs by individuals who are Russian resident holders must be declared on the holder’s annual tax declaration and are subject to personal income tax at a rate of 13%.

The tax base in respect of sale of the securities by an individual is calculated as sale proceeds less documentary confirmed expenses related to purchase of these securities (including cost of securities and expenses associated with purchase, keeping and sale of these securities). If it is impossible to confirm the expenses with the appropriate documents then such individual can decrease the tax base with the property deduction: (i) if the individual owned the securities for less than three years, the property deduction is provided to the extent of income from the sale of those securities, but cannot exceed RUR125,000; and (ii) if the ownership period is more than three years the property deduction is provided to the extent of income from the securities sale. However, practical application of these provisions is currently rather unclear and investors should take independent tax advice with respect to tax consequences of receipt of proceeds from a source within Russian in respect of a disposal of the shares.

As the Russian legislation related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) from sale, exchange or other disposition of GDSs is not entirely clear, we urge Russian residents to consult their own tax advisers regarding the tax treatment of the purchase, ownership and disposition of the GDSs.

Non-resident holders

Legal entities and organizations

Under current Russian legislation, capital gains arising from the sale, exchange or other disposition of Shares or GDSs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. We believe that immovable property located in Russia does not currently, and will not, constitute more than 50 % of our assets. However, because the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of our assets.

If more than 50% of our assets were to consist of immovable property located in Russia, non-resident holders (legal entities or organizations) of our Shares or GDSs (except as described below) will be subject to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of GDSs or 24% withholding tax on the capital gain realized from sale, exchange or other disposal, being the difference between the sales price and acquisition costs of Shares or GDSs. However, as far as the GDSs are concerned, so long as the GDSs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition of GDSs on the London Stock Exchange by non-resident holders (legal entities or organizations) should not be subject to taxation in Russia.

Individuals

Under Russian personal income tax law, the sale, exchange or other disposal of Shares or GDSs by non-resident holders who are individuals outside of Russia will not be considered Russian source income and will not be taxable in Russia. The sale, exchange or other disposal of Shares or GDSs by non-resident holders who are individuals in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and acquisition value of GDSs or underlying Shares. However, the acquisition price can only be deducted at the source of payment if the sale was made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia. Otherwise, no withholding needs to be made and the non-resident holder will have an obligation to file an annual tax return, report his or her income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). If the sale, exchange or other disposition of Shares or GDSs occurs in Russia, the purchaser will be required to report to the Russian tax authorities on the income realized by the non-resident individual upon the sale, exchange or other disposition of Shares or GDSs by April 1 of the year following the reporting year.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of Shares or GDSs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. For example, under the U.S.-Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains unless 50% or more of the assets of the issuer are represented by immovable property. The U.K.-Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by U.K. holders unless the gains relate to shares that: (a) derive all or substantially all of their value directly or indirectly from immovable property in Russia; and (b) are not quoted on an approved stock exchange. See “—Tax Treaty Procedures”.

Tax treaty procedures

The Profits Tax Chapter of the Tax Code does not provide for the requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, in connection with a tax audit, the Russian tax authorities may still dispute the non-resident’s eligibility for the double tax treaty relief and require the tax agent (i.e. the company paying dividends or the Russian purchaser of the shares) to pay tax. A non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide a confirmation of its tax treaty residence that complies with the applicable double tax treaty in advance of receiving income.

In accordance with the Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming the income received and the tax paid off-shore, confirmed by the foreign tax authorities. Technically, such requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized 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 tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and 1011DT for other income is designed to combine (i) and (ii) for foreign legal entities). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents have been filed with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds. See “Risk Factors—Risks Relating to the Shares, the GDSs and the Trading Market—You may not be able to benefit from double tax treaties”.

The above-mentioned procedures may be more complicated with respect to GDSs, due to separation of legal ownership and beneficial ownership to the Russian shares, underlying the GDSs. Russian tax legislation does not provide for clear guidance regarding availability of double tax treaty relief for GDS holders. Therefore, we cannot assure you that the relief will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on common shares represented by GDSs.

United States Federal Income Tax Considerations

The following discussion describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares or GDSs by a U.S. holder (as defined below). This discussion addresses only U.S. holders that acquire Shares or GDSs in this offering and hold Shares or GDSs as capital assets within the meaning of section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based on the Code, the Treasury Regulations promulgated thereunder, administrative and judicial pronouncements with respect thereto, the U.S.-Russia Tax Treaty, all as currently in effect and all subject to change, possibly with retroactive effect. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to the acquisition, ownership or disposition of Shares or GDSs by prospective investors in light of their particular circumstances. In particular, this discussion does not address all of the tax consequences that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, persons that own (actually or constructively) 10% or more of our common shares or capital, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers, traders in securities that elect to mark-to-market their securities, partnerships and other pass-through entities, regulated investment companies, real estate investment trusts, U.S. expatriates, investors that hold Shares or GDSs as part of a straddle, hedging transaction or conversion transaction for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). This discussion does not address any tax consequences arising under the laws of any state or other political subdivision of the United States.

As used herein, the term “U.S. holder” means a beneficial owner of Shares or GDSs that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- a trust with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have authority to control all of its substantial decisions or certain electing trusts that were in existence on August 19, 1996 and were treated as domestic trusts on that date.

If a partnership holds Shares or GDSs, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the status and activities of the partnership. We urge prospective investors that are partnerships (or entities treated as partnerships for U.S. federal income tax purposes) to consult their own tax advisers regarding the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Shares or GDSs.

For U.S. federal income tax purposes, a U.S. holder of a GDS should be treated as the owner of the underlying common shares represented by that GDS, and the discussion below assumes such treatment.

The U.S. Treasury has expressed concerns that parties to whom GDSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. persons for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. persons, as described below. Accordingly, the analysis of the creditability of Russian taxes described below, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. persons, could be affected by future actions that may be taken by the U.S. Treasury.

This discussion is for general information only. The discussion is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under U.S. federal tax law. The discussion was written to support the promotion or marketing of the Shares and GDSs. Each prospective investor should consult an independent tax adviser as to the U.S. federal, state, and local income and other tax consequences relating to the acquisition, ownership and disposition of the Shares or GDSs, including their eligibility for the benefits of the U.S.-Russia Tax Treaty, based on the investor’s particular circumstances.

Taxation of dividends

A U.S. holder will be required to include in gross income the gross amount of any distribution, including any Russian withholding taxes, paid on the Shares or common shares represented by the GDSs out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Distributions in excess of our 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 adjusted tax basis in the Shares or GDSs and thereafter will be treated as a gain from the sale of Shares or GDSs. We have not maintained and do not plan to maintain calculations of our earnings and profits for U.S. federal income tax purposes. We urge U.S. holders to consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from us.

Dividends paid on the Shares or common shares represented by the GDSs generally will constitute income from sources outside the United States and be categorized as "passive income" or, in the case of some U.S. holders, as "financial services income" for U.S. foreign tax credit purposes (or, for tax years beginning after December 31, 2006, as "passive category income" or, in the case of some U.S. holders, as "general category income" for U.S. foreign tax credit purposes). Dividends paid on the Shares or common shares represented by the GDSs will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations. In general, a U.S. holder may elect to claim a U.S. foreign tax credit against its U.S. federal income tax liability, subject to applicable limitations and holding period requirements, for Russian tax withheld from dividends received in respect of the Shares or common shares represented by GDSs. If Russian tax is withheld at a rate in excess of the rate applicable to a U.S. holder under the U.S.-Russia Tax Treaty, the U.S. holder may not be entitled to a foreign tax credit for the excess amount. A U.S. holder that does not elect to claim a U.S. foreign tax credit may instead claim a deduction for Russian tax withheld, but only for a taxable year in which the U.S. holder elects to do so with respect to all foreign income taxes paid or accrued in such taxable year. The rules relating to the foreign tax credit are very complex. We urge each U.S. holder to consult its own tax adviser regarding whether it should elect to claim U.S. foreign tax credits or deductions with respect to foreign income taxes paid or accrued and whether and to what extent it is entitled to claim any U.S. foreign tax credit.

The U.S. dollar value of any ruble (or other non-U.S. currency) distribution will be the U.S. dollar value of the payment, before reduction for Russian withholding taxes, calculated by reference to the exchange rate in effect on the day the payment is received, or treated as received, by the U.S. holder, regardless of whether the rubles (or other non-U.S. currency) are in fact converted into U.S. dollars. If the rubles (or other non-U.S. currency) so received are converted by the U.S. holder or Depositary into U.S. dollars on the day they are received, or treated as received, the U.S. holder generally will not be required to recognize foreign currency gain or loss upon such conversion. If the rubles (or other non-U.S. currency) so received are not converted by the U.S. holder or Depositary into U.S. dollars on the date of receipt, such U.S. holder will have a basis in the rubles (or other non-U.S. currency) equal to the U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the rubles (or other non-U.S. currency) generally will be treated as ordinary income or loss to such U.S. holder and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes.

Generally, U.S. holders that are accrual basis taxpayers must translate Russian income 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 amount of the credits for Russian taxes relative to the U.S. holder's U.S. federal income tax liability attributable to a dividend. However, for taxable years beginning after 2004, U.S. holders that are accrual basis taxpayers may elect to translate Russian income taxes into U.S. dollars using the exchange rate in effect on the day the taxes were paid. The election will apply to any foreign income taxes the liability for which is denominated in any non-U.S. currency for the taxable year in which it is made and all subsequent taxable years, unless revoked with the consent of the U.S. Internal Revenue Service. We urge U.S. holders that are accrual basis taxpayers to consult their own tax advisers with respect to the advisability and U.S. federal income tax consequences of making this election.

Legislation enacted on May 28, 2003, as subsequently amended (the "2003 Tax Legislation"), reduces to 15% the maximum tax rate for specified dividends received by non-corporate U.S. holders through taxable years beginning on or before December 31, 2008, if the relevant holding period requirements are met. Dividends received from "qualified foreign corporations" generally qualify for the reduced rate. A non-U.S. corporation (other than a corporation that is in, or was in the year prior to, the year the dividend is paid, a passive foreign investment company) generally will be considered to be a qualified foreign corporation if it is eligible for the

benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines is satisfactory for purposes of this provision and which includes an exchange of information program (a “Qualifying Treaty”). For this purpose, the U.S.-Russia Tax Treaty as currently in effect is considered a Qualifying Treaty and we believe that we are currently eligible for the benefits of such treaty. However, because the U.S. Treasury Department has not yet issued guidance concerning when a non-U.S. corporation is considered to be eligible for the benefits of a Qualifying Treaty and because this conclusion is a factual determination that may be subject to change, no assurance can be given that the reduced rate will apply to dividends paid by us. Special rules apply for purposes of determining the recipient’s investment income (which limits deductions for investment interest) and foreign income (which may affect the amount of foreign tax credit) and to certain extraordinary dividends. We urge each non-corporate U.S. holder to consult its own tax adviser regarding the possible applicability of the reduced rate under the 2003 Tax Legislation and the related restrictions and special rules.

Taxation on sale, exchange or other disposition of Shares or GDSs

A U.S. holder generally will recognize capital gain or loss upon the sale, exchange or other disposition of Shares or GDSs in an amount equal to the difference, if any, between the amount realized on the sale, exchange or other disposition and the U.S. holder’s adjusted tax basis in the Shares or GDSs. This capital gain or loss will be long-term capital gain or loss if the U.S. holder’s holding period in the Shares or GDSs exceeds one year. Net long-term capital gains of a non-corporate U.S. holder recognized in a tax year beginning before January 1, 2009, are generally taxed at a maximum U.S. federal income tax rate of 15%. The deductibility of capital losses is subject to limitations.

A U.S. holder generally will not recognize gain or loss for U.S. federal income tax purposes upon the withdrawal or deposit of common shares in the Company in exchange for GDSs.

Gain or loss from the sale, exchange or other disposition of Shares or GDSs will generally be income or loss from sources within the United States for U.S. foreign tax credit purposes and U.S. holders may be limited in their ability to use foreign tax credits for any Russian tax imposed on the sale, exchange or disposition of Shares or GDSs or on the withdrawal of the common shares represented by the GDSs from the Depositary. In addition, if Russian tax is withheld on gain from the sale, exchange or disposition of Shares or GDSs at a rate in excess of the rate applicable to a U.S. holder under the U.S.-Russia Tax Treaty, or if Russian tax is withheld on the withdrawal of the common shares from the Depositary, the U.S. holder may not be entitled to foreign tax credits for the excess amount. The rules relating to the foreign tax credit are very complex. We urge each U.S. holder to consult its own tax adviser regarding whether and to what extent it is entitled to claim any U.S. foreign tax credit.

A U.S. holder that receives rubles (or other non-U.S. currency) upon the sale, exchange or other disposition of Shares or GDSs generally will realize an amount equal to the U.S. dollar value of such rubles (or other non-U.S. currency) on the date of disposition (or if Shares or GDSs are traded on an established securities market, the settlement date, in the case of cash-basis and electing accrual basis taxpayers). If the amount realized is based on the U.S. dollar value of such rubles (or other non-U.S. currency) on the date of disposition, the U.S. holder generally will recognize U.S. source ordinary income or loss on the settlement date in an amount equal to the difference between the U.S. dollar value of such rubles (or other non-U.S. currency) on the settlement date and the U.S. dollar value of such rubles (or other non-U.S. currency) on the date of disposition. Any gain or loss realized by a U.S. holder on a subsequent conversion of such rubles (or other non-U.S. currency) into U.S. dollars generally will be ordinary income or loss and will be income or loss from sources within the United States for foreign tax credit purposes.

U.S. passive foreign investment company status

We believe that we are not currently a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes, and the discussion above assumes that we are not a PFIC. However, because our business is highly cash generative and because an actual determination of PFIC status is factual in nature and made annually, there can be no assurance that we will not become a PFIC for U.S. federal income tax purposes in the future. A non-U.S. corporation will be a PFIC in any taxable year in which either (i) 75% or more of its gross income consists of specified types of “passive” income or (ii) 50% or more of the average percentage of its assets (by value) produce or are held for the production of passive income.

In general, a U.S. holder of shares in a PFIC is subject to a special tax and an interest charge at the time of the sale of (or receipt of an “excess distribution” with respect to) its shares. A shareholder generally is treated as

having received an “excess distribution” if the amount of the distribution was more than 125% of the average distribution with respect to its shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). The special tax is computed by assuming that the excess distribution or, in the case of a sale, the gain with respect to the shares, was earned in equal portions throughout the holder’s period of ownership. The portion allocable to each year prior to the year of sale is taxed at the maximum marginal rate applicable for each such period. The interest charge is determined based on the applicable rate imposed on underpayments of U.S. federal income tax for the period. In addition, a non-corporate U.S. holder of shares in a non-U.S. corporation is not eligible for the 15% maximum tax rate applicable to dividends from a “qualified foreign corporation”, described above, under “— Taxation of dividends”, if the non-U.S. corporation is in, or was in the year prior to, the year in which the dividend is paid, a PFIC.

In the event we are treated as a PFIC for any taxable year, a U.S. holder may be able to mitigate the adverse tax consequences summarized above if a “mark-to-market” election is available and the U.S. holder validly makes such an election. If a U.S. holder makes a mark-to-market election, the U.S. holder generally will be required to take into account the difference, if any, between the fair market value and its adjusted tax basis in the Shares or GDSs at the end of each taxable year as ordinary income or ordinary loss (to the extent of any net mark-to-market gain previously included in income). In addition, any gain from a sale or other disposition of the Shares or GDSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income). A mark-to-market election is only available for “marketable stock”. Generally shares will be considered “marketable stock” for any calendar year if they are traded in more than de minimis quantities on a “qualified exchange,” on at least 15 days during each calendar quarter. A non-U.S. securities exchange will constitute a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, listing, financial disclosure and other requirements set forth in the U.S. Treasury Regulations. We do not know whether our Shares or GDSs will be treated as “marketable stock” for these purposes. If we are treated as a PFIC, we do not intend to comply with the requirements necessary to permit a U.S. holder to make a “qualified electing fund” election in respect of its Shares or GDSs.

The rules concerning PFICs and PFIC elections are highly technical and complex. Therefore, we urge each U.S. holder to consult its own tax adviser regarding the potential application of the PFIC rules and elections to the ownership of Shares or GDSs.

Information reporting and backup withholding

Dividends on Shares or common shares represented by GDSs and proceeds from the sale of Shares or GDSs may be subject to U.S. information reporting and/or backup withholding, unless the U.S. holder is a corporation or otherwise establishes a basis for exemption. A credit can be claimed against the U.S. holder’s U.S. federal income tax liability for the amounts withheld under the backup withholding rules and any excess amount is refundable if the required information is provided to the U.S. Internal Revenue Service.

Reportable transactions

Under recently promulgated U.S. Treasury Regulations, U.S. holders that participate in “reportable transactions” (as defined in the regulations) must attach to their tax returns a disclosure statement on Form 8886. We urge U.S. holders to consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the purchase, ownership or disposition of any rubles (or other foreign currency) received as a dividend or as proceeds from the sale of Shares or GDSs.

United Kingdom Tax Consequences

The following discussion describes the material United Kingdom tax consequences relating to the purchase, ownership and disposition of Shares or GDSs. The comments below are of a general nature based on current United Kingdom law and practice. They do not necessarily apply to all categories of investor. Prospective investors are urged to consult their own tax advisers prior to investing with respect to their own particular circumstances. In particular, these comments do not apply to the following:

- investors who are not the beneficial owner of the Shares or GDSs;
- investors who do not hold their Shares or GDSs as capital assets;
- special classes of investor such as dealers and tax-exempt investors; or
- investors that own (or are deemed to own) 10% or more of our voting rights, Shares or GDSs.

Taxation of dividends

Dividend payments in respect of Shares or GDSs may be made without withholding or deduction for or on account of United Kingdom income tax. As discussed in the paragraphs headed “— Russian Federation Tax Considerations — Taxation of dividends,” such dividends will be subject to Russian withholding taxes.

Dividends received by investors which are companies within the charge to United Kingdom corporation tax (by reason of being resident in the United Kingdom or carrying on a trade through a permanent establishment in the United Kingdom to which the Shares or GDSs are attributable), will be subject to United Kingdom corporation tax on the gross amount of any dividend paid before the deduction of any Russian withholding taxes. Credit may be given for Russian tax withheld subject to the United Kingdom tax rules regarding calculation and availability of such credit including taking all reasonable steps to minimize the amount of Russian tax on the dividends. See “— Certain Russian Tax Law Considerations — Tax Treaty Procedures”.

Dividends received by an individual investor who is resident and domiciled in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Shares or GDSs are attributable, will generally be subject to United Kingdom income tax on the gross amount of any dividend paid before the deduction of any Russian withholding taxes. Higher rate tax payers are currently subject to United Kingdom tax on such dividends at 32.5%. Credit may be given for Russian tax withheld subject to the United Kingdom tax rules regarding calculation and availability of such credit including taking all reasonable steps to minimize the amount of Russian tax on the dividends. See “— Certain Russian Tax Law Considerations — Tax Treaty Procedures”.

An individual investor who is resident but not domiciled in the United Kingdom, and who does not carry on a trade in the United Kingdom, and persons who are not ordinarily resident and who fall into certain categories of person, will generally be subject to United Kingdom income tax on dividends received to the extent that such dividends are remitted or deemed to be remitted to the United Kingdom. A dividend is remitted if it is paid to the United Kingdom or transmitted or brought to the United Kingdom in any way. A dividend may also be treated as remitted to the United Kingdom under certain anti-avoidance legislation.

Taxation of disposals

For the purposes of United Kingdom taxation on chargeable gains, the disposal of GDSs by investors which are companies within the charge to United Kingdom corporation tax (by reason of being resident in the United Kingdom or carrying on a trade through a permanent establishment in the United Kingdom to which the Shares or GDSs are attributable), may depending on the investor’s circumstances give rise to a chargeable gain or allowable loss.

A disposal of Shares or GDSs by an investor who is an individual who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Shares or GDSs are attributable, may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains. Any chargeable gains may, depending on the individual’s personal circumstances, be reduced or offset by available exemptions or reliefs from capital gains tax, including the annual exemption and taper relief (although taper relief at enhanced business assets rates will not generally be available).

An individual investor who is resident or ordinarily resident, but not domiciled, in the United Kingdom, and who does not carry on a trade in the United Kingdom, will be liable for United Kingdom capital gains tax only to the extent that the chargeable gains made on the disposal of Shares or GDSs are remitted or deemed to be remitted to the United Kingdom. Dealings in the Shares or GDSs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to a United Kingdom capital gains tax liability.

An individual investor who is neither resident nor ordinarily resident in the United Kingdom for tax purposes and who does not return to the United Kingdom within five years of disposal will not normally be liable for United Kingdom taxation on chargeable gains realized on the disposal of such Shares or GDSs unless, at the time of disposal, such investor carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Shares or GDSs are attributable.

As discussed in the paragraphs headed “— Certain Russian Tax Law Considerations — Taxation of the Proceeds from Sale of Shares,” certain capital gains may be subject to Russian withholding taxes. Credit against

United Kingdom tax may be given for Russian tax withheld subject to the United Kingdom tax rules regarding calculation and availability of such credit including taking all reasonable steps to minimize the amount of Russian tax on the dividends. See “— Certain Russian Tax Law Considerations — Tax Treaty Procedures”.

Stamp duty

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise on the issue of Shares or GDSs to investors. United Kingdom stamp duty will not normally be payable in connection with a transfer of Shares or GDSs provided that the instrument of transfer is executed and retained outside the United Kingdom, the shareholder register, the GDS register and the GDR register are not held in the United Kingdom and no other action is taken in the United Kingdom by the transferor or transferee.

No United Kingdom stamp duty reserve tax will be payable in respect of any agreement to transfer Shares or GDSs provided that the Shares or GDSs are not registered in a register kept in the United Kingdom by or on behalf of the Company.

PLAN OF DISTRIBUTION

Description of the Distribution

The offering consists of a simultaneous international offering of Shares and GDSs. The GDSs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States to certain persons in offshore transactions in reliance on Regulation S. The Shares are being offered in the Russian Federation and outside the United States to certain persons in offshore transactions in reliance on Regulation S.

The Selling Shareholder and the underwriters named below (hereinafter, the Underwriters) have entered into a selling shareholder agreement dated December 9, 2005 (hereinafter, the Selling Shareholder Agreement) with respect to the Shares and the GDSs being offered. We and the Underwriters have entered into a listing agreement dated December 9, 2005 (hereinafter, the Listing Agreement) with respect to the admission of the GDSs to the Official List and to trading on the Regulated Market. Subject to the satisfaction of certain conditions set out in the Selling Shareholder Agreement, each Underwriter has agreed, severally but not jointly, to procure subscribers for, and failing which to subscribe for, the Shares in the form of GDSs and to purchase the Shares, and pay for such number of Shares as are set forth opposite its name in the following table.

<u>Name of Underwriter</u>	<u>Address</u>	<u>Number of Shares</u>
UBS Limited	1 Finsbury Avenue, London EC2M 2PP, United Kingdom	199,500,000
Merrill Lynch International	2 King Edward Street, London EC1A 1HQ, United Kingdom	199,500,000
Alfa Capital Holdings (Cyprus) Limited, acting through its London branch, Alfa Capital Markets	21st Floor, City Tower, 40 Basinghall Street, London EC2V 5DE, United Kingdom	21,000,000
Total		420,000,000

The GDSs will be represented by a Master Rule 144A GDR and a Master Regulation S GDR, and will be subject to certain restrictions as further discussed in “Description of the Global Depositary Shares.”

We estimate that our and the Selling Shareholder’s total expenses of the offering, other than commissions, will be approximately \$6,300,000.

The offer price is \$1.45 per Share, equating to \$14.50 per GDS. The Underwriters will deduct from the proceeds of the offering:

- (i) costs and expenses incurred by the Underwriters in connection with the offering; and
- (ii) certain commissions, including an incentive fee, payable by the Selling Shareholder, of up to a maximum of 3% of the amount equal to the offer price multiplied by the number of Shares. Such commissions will equate to a maximum total of \$18,270,000 with respect to the number of Shares sold in the form of Shares and GDSs indicated in the table above and, with respect to any additional Shares in the form of GDSs acquired by the Underwriters as a result of the exercise of the over-allotment option, a maximum total of \$2,740,500 (on the assumption that the over-allotment option is exercised in full).

The Selling Shareholder has granted to the Joint Bookrunners, on behalf of the Underwriters, an over-allotment option, exercisable until 30 days after the announcement of the offer price, to purchase or procure purchasers for up to 63,000,000 additional Shares, comprising up to 6,300,000 additional GDSs. The Selling Shareholder and we have provided the Underwriters with customary representations and warranties under the Selling Shareholder Agreement and the Listing Agreement, respectively, in relation to, inter alia, its title to the Shares it is selling in the offering, in the case of the Selling Shareholder, and in relation to our business, in the case of both the Selling Shareholder and ourselves.

The Selling Shareholder Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. In addition, the Joint Bookrunners, on behalf of the Underwriters, may terminate the Selling Shareholder Agreement and the Listing Agreement in certain circumstances prior to the Closing Date. If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Selling Shareholder Agreement is terminated prior to, admission, then the offering will lapse. We and the Selling Shareholder have each agreed to give customary indemnities to the Underwriters against certain liabilities in respect of the offering.

In connection with the offering, each Underwriter and any affiliate thereof acting as an investor for its own account may take up the Shares or the GDSs and in that capacity may retain, purchase or sell for its own account such securities and any securities of NLMK or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references in this prospectus to the Shares or GDSs being offered or placed should be read as including any offering or placement of securities to any Underwriter and any affiliate thereof acting in such capacity. The Underwriters 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.

Lock up Arrangements

We, the Selling Shareholder and certain of our other shareholders holding in aggregate 93% of our shares prior to the offering have agreed, as part of the arrangements with the Underwriters, for a period of 180 days after the Closing Date, subject to certain limited exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any of our shares or securities convertible or exchangeable into or exercisable for any of our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of our shares, including equity swaps, forward sales and options or GDSs representing the right to receive any of our shares, without prior written consent of the Underwriters, save as contemplated as part of the offering described herein.

Selling Restrictions

The following is a summary of the selling restrictions applicable to the Shares and the GDSs. See “Description of the Global Depositary Shares”.

The Shares and the GDSs have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the U.S. Securities Act.

The Shares and the GDSs have not been and will not be marketed or made available in whole or in part to the public in conjunction with the application for the GDSs to be admitted to the Official List and to trading on the Regulated Market.

In addition, until 40 days after the commencement of the offering of the Shares and the GDSs, an offer or sale of Shares and GDSs within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Underwriters propose to offer the Shares (i) in the form of Shares and GDSs to institutional investors outside the United States in accordance with Regulation S and in the form of Shares to investors in the Russian Federation, and (ii) in the form of GDSs through the U.S. selling agents of certain of the Underwriters, only to QIBs in the United States in accordance with Rule 144A. Each of the Underwriters has agreed that, except as permitted in the Selling Shareholder Agreement, it will not offer, sell or deliver Shares or the GDSs within the United States.

Each of the Underwriters has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDSs in circumstances in which section 21(1) of the FSMA does not apply to NLMK; 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 Shares or GDSs in, from or otherwise involving the United Kingdom.

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 Shares or GDSs which are the subject of the offering contemplated herein may not be made to the public in that Relevant Member State, except that an offer of Shares and GDSs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are 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 (1) an average of at least 250 employees during the last financial year; (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) 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 Bookrunners for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by NLMK or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive and each person who initially acquired any Shares or GDSs or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of any Shares or GDSs to the public” in relation to any Shares or GDSs 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 Shares or GDSs to be offered so as to enable an investor to decide to purchase any Shares or GDSs, 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.

In the case of any Shares or GDSs 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, acknowledged and agreed that the Shares or GDSs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Shares or GDSs to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Bookrunners has been obtained to each such proposed offer or resale. NLMK, the Selling Shareholder, the Underwriters and their affiliates, and others will rely (and the Selling Shareholder and NLMK each acknowledges that the Underwriters and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Bookrunners of such fact in writing may, with the consent of the Joint Bookrunners be permitted to subscribe for or purchase Shares or GDSs.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

Each of the Underwriters has represented and agreed that the GDSs will only be offered or sold, directly or indirectly, in Canada only in the Canadian provinces of British Columbia, Manitoba, Ontario and Québec and in compliance with applicable Canadian securities laws and accordingly, any sales of GDSs 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.

Each of the Underwriters has acknowledged that no Russian issue prospectus has been registered or is intended to be registered with respect to the GDSs and the GDSs have not been and are not intended to be registered in the Russian Federation, and, consequently, it has represented, warranted and agreed that it has not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any GDSs 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 unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Underwriters or their affiliates may distribute the Prospectus to persons in the Russian Federation in a manner that does not constitute an “advertisement” (as defined in Russian law) of GDSs and may sell GDSs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDSs in the Russian Federation (as defined in Russian law).

Neither we nor the Underwriters, nor any person acting on our or the Underwriters’ behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the Shares or the GDSs, or the possession, circulation or distribution of this prospectus or any other material relating to us or the Shares in the form of GDSs, in any jurisdiction where action for such purpose is required. Accordingly, the Shares in the form of GDSs 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 authorized 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 authorized by us or any Underwriter. 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.

Canada

This document is not, and under no circumstances is to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

The offering is being made in the provinces of British Columbia, Manitoba, Ontario and Québec (the “Private Placement Provinces”) by way of a private placement of GDSs. The offering in the Private Placement Provinces is being made pursuant to this document through the Underwriters named in this document or through their selling agents who are permitted under applicable law to distribute such securities in Canada.

Representations and agreements by purchasers

Confirmations of the acceptance of offers to purchase any GDSs will be sent to purchasers in the Private Placement Provinces who have not withdrawn their offers to purchase prior to the issuance of such confirmations. Each purchaser of GDSs in the Private Placement Provinces who receives a purchase confirmation regarding the purchase of GDSs will, by the purchaser’s receipt thereof, be deemed to have represented to NLMK, the Selling Shareholder and the dealer from which such purchase confirmation is received, that such purchaser and any ultimate purchaser for which such initial purchaser is acting as agent (i) is entitled under applicable provincial securities laws to purchase such GDSs without the benefit of a prospectus qualified under such securities laws and, in the case of purchasers in provinces other than Ontario, without the services of a dealer registered pursuant to such securities laws, (ii) is basing its investment decision solely on this document and not on any other information concerning NLMK or the offering, (iii) has reviewed the terms referred to below under the heading “Canadian Resale Restrictions” and (iv) is in compliance with the following:

- where the purchaser is purchasing in British Columbia, Manitoba or Québec, such purchaser is purchasing GDSs with the benefit of the prospectus exemption and dealer registration exemption provided by Section 2.3 of National Instrument 45-106 — *Prospectus and Registration Exemptions* (“NI 45-106”) (that is, such purchaser is purchasing as principal and is an “accredited investor” within the meaning of Section 1.1 of NI 45-106);
- where the purchaser is purchasing in Ontario, such purchaser is either a “designated institution” within the meaning of Section 204 of the Regulation to the *Securities Act* (Ontario) purchasing from a person or company registered as an “international dealer” under the *Securities Act* (Ontario) or is a purchaser purchasing from a fully registered dealer and, in either case, is purchasing the GDSs with the benefit of the prospectus exemption provided by Section 2.3 of NI 45-106 (that is, such purchaser is purchasing the GDSs as a principal and is an “accredited investor” within the meaning of Section 1.1 of NI 45-106);
- if the purchaser is not an individual or an investment fund, the purchaser had a pre-existing purpose and was not established solely or primarily for the purpose of acquiring GDSs in reliance on an exemption from applicable prospectus requirements in the Private Placement Provinces;
- such purchaser is either purchasing GDSs as principal for its own account, or is deemed to be purchasing GDSs as principal for its own account in accordance with the applicable securities laws of the province in which such purchaser is resident, by virtue of being either (a) a designated trust company; (b) a designated insurance company; (c) a portfolio manager; or (d) another entity similarly deemed by those laws to be purchasing as principal for its own account when purchasing on behalf of other beneficial purchasers;
- such purchaser is purchasing in respect of a trade for which there is an exemption from the registration requirements of applicable Canadian securities laws or which is otherwise in compliance with such laws;

- such purchaser acknowledges and agrees that the offer and sale of GDSs was made exclusively through this document and was not made through an advertisement of the GDSs in any printed media of general and regular paid circulation, radio or television or any other form of advertising;
- acknowledges that the GDSs are being distributed in Canada on a private placement basis only and that any resale of GDSs must be in accordance with the requirements of applicable securities laws, which will vary depending on the relevant jurisdictions; and
- the purchaser acknowledges and agrees that its name and other specified information, including the number of GDSs purchased, will be disclosed to the relevant Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable securities and freedom of information laws. The purchaser consents to the disclosure of such information. If required by applicable securities laws, the purchaser agrees to execute, deliver and file or assist the dealers in obtaining and filing such reports, undertakings and other documents relating to the purchase of GDSs by the purchaser as may be required by any securities commission or other regulatory authority.

Language of document

Each purchaser of GDSs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such GDSs be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des GDSs soient rédigés uniquement en anglais.*

Canadian resale restrictions

The distribution of the GDSs in the Private Placement Provinces is being made on a private placement basis. Accordingly, any resale of the GDSs must be made (i) through an appropriately registered dealer or in accordance with an exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of GDSs are advised to seek legal advice prior to any resale of GDSs.

Statutory rights of action (Ontario purchasers)

Subsection 6.2(1) of Ontario Securities Commission Rule 45-501- Ontario Prospectus and Registration Exemption ("OSC Rule 45-501") provides that when an offering memorandum, such as this document, is delivered to an investor to whom securities are distributed in reliance upon the "accredited investor" prospectus exemption in Section 2.3 of NI 45-106, the right of action referred to in Section 130.1 of the *Securities Act* (Ontario) ("Section 130.1") is applicable. Section 130.1 provides purchasers who purchase securities offered by an offering memorandum with a statutory right of action against the issuer of securities and any selling securityholder for rescission or damages in the event that the offering memorandum and any amendment to it contains a "misrepresentation". "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in the light of the circumstances in which it was made.

Despite subsection 6.2(1) of OSC Rule 45-501, the rights referred to in Section 130.1 do not apply in respect of an offering memorandum delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus exemption in Section 2.3 of NI 45-106 if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

Where this document, together with any amendment to it, is delivered to an eligible prospective purchaser of GDSs in connection with a trade made in reliance on Section 2.3 of NI 45-106, and this document contains a misrepresentation which was a misrepresentation at the time of purchase of the GDSs, the purchaser will have a statutory right of action against NLMK and the Selling Shareholder for damages or, while still the owner of

GDSs, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that the right of action for rescission will be exercisable by the purchaser only if the purchaser gives notice to the defendant, not more than 180 days after the date of the transaction that gave rise to the cause of action, that the purchaser is exercising this right; or, in the case of any action, other than an action for rescission, the earlier of: (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the transaction that gave rise to the cause of action.

The defendant shall not be liable for a misrepresentation if it proves that the purchaser purchased the GDSs with knowledge of the misrepresentation.

In an action for damages, the defendant shall not be liable for all or any portion of the damages that the defendant proves do not represent the depreciation in value of the GDSs as a result of the misrepresentation relied upon.

Subject to the paragraph below, all or any one or more of NLMK and the Selling Shareholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, NLMK shall not be liable where it is not receiving any proceeds from the distribution of the GDSs being distributed and the misrepresentation was not based on information provided by NLMK, unless the misrepresentation,

- was based on information that was previously publicly disclosed by NLMK;
- was a misrepresentation at the time of its previous public disclosure; and
- was not subsequently publicly corrected or superseded by NLMK prior to the completion of the distribution of the GDSs.

In no case shall the amount recoverable for the misrepresentation exceed the price at which the GDSs were offered.

The foregoing statutory right of action for rescission or damages conferred is in addition to and without derogation from any other right the purchaser may have at law.

This summary is subject to the express provisions of the *Securities Act* (Ontario) and the regulations and rules made under it, and you should refer to the complete text of those provisions.

Enforcement of legal rights

All of the directors and officers (or their equivalents) of NLMK and the Selling Shareholder, as well as any experts named herein may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon NLMK, the Selling Shareholder or such experts. All or a substantial portion of the assets of NLMK, the Selling Shareholder and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against NLMK, the Selling Shareholder or such experts in Canada or to enforce a judgment obtained in Canadian courts against NLMK, the Selling Shareholder or such experts outside of Canada.

Canadian tax considerations and eligibility for investment

This document does not address the Canadian tax consequences of ownership of the GDSs. Prospective purchasers of GDSs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the GDSs for investment by purchasers under relevant Canadian legislation.

Other

UBS Limited and Merrill Lynch International and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Selling Shareholder and NLMK and their respective affiliates, for which they received customary fees, and UBS Limited and Merrill Lynch International and their respective affiliates may provide such services for the Selling Shareholder and NLMK and their respective affiliates in the future.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDSs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDSs and cross-market transfers of the GDSs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations 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 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 participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream 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 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 participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDSs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised NLMK as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" 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 computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. 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 GDSs 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 GDSs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "Taxation — United States 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 GDSs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDSs, may be limited.

Registration and Form

Book-entry interests in the GDSs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR registered in the name of BT Globenet Nominees Limited as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDSs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDSs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDSs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDSs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDSs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDSs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDSs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDSs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from NLMK for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from NLMK for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, NY 10274, United States of America. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg.

NLMK will not impose any fees in respect of the GDSs; however, holders of book-entry interests in the GDSs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

If DTC, or Euroclear or Clearstream, as the case may be, cease to make their respective book-entry settlement systems available for the GDSs, and it is impracticable without undue effort or expense to continue to have the GDSs available in book-entry form, GDR Certificates will be made available in physical, certificated form to the beneficial owners of book-entry interests in the respective Master GDSs. GDR Certificates may be delivered by the holder thereof or its duly authorized attorney to the Depositary at either its principal New York office or its principal London office for the purpose of effecting a transfer thereof and of the GDSs represented thereby, and the Depositary shall register such transfer on the books maintained by it for such purpose at its principal New York office, on the terms and conditions set forth in the relevant deposit agreement.

Settlement and Delivery of Shares

Each purchaser of the Shares in the offering will be required to pay, in U.S. dollars or rubles, as the case may be, for the Shares within two days following delivery of such Shares to the purchaser, which is expected to take place between December 20, 2005 and December 26, 2005. In order to take delivery of the Shares, potential purchasers may be required to have a depo account at one or more depositaries designated by the Managers. Upon taking delivery of the Shares, purchasers may choose to hold the Shares through a direct account with our share registrar.

Global Clearance and Settlement Procedures

Initial settlement

The GDSs will be in global form evidenced by the two Master GDSs. Purchasers electing to hold book-entry interests in the GDSs through Euroclear and Clearstream 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 GDSs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

Transfer restrictions

For a description of the transfer restrictions relating to the Shares and GDSs, see “Description of the Global Depositary Shares — Transfer Restrictions” and “Plan of Distribution — Selling Restrictions”.

Trading between Euroclear and Clearstream participants

Secondary market sales of book-entry interests in the GDSs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDSs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream 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 GDSs 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 purchaser

When book-entry interests in the GDSs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream 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, 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 participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream 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 GDSs 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 GDSs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between Clearstream/Euroclear seller and DTC purchaser

When book-entry interests in the GDSs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream 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 participant, as the case may be. On the settlement date, Euroclear or Clearstream, 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, as the case may be, and will deliver such book-entry interests in the GDSs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, 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 GDSs 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 GDSs 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 and DTC in order to facilitate the transfers of interests in the GDSs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of NLMK, the Underwriters, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of GDSs will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing of the GDSs. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade GDSs in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the GDSs initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of GDSs may be affected by such local settlement practices and purchasers of GDSs between the date of pricing and the relevant Closing Date should consult their own adviser.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is Deutsche Bank Trust Company Americas. Deutsche Bank Trust Company Americas was incorporated on March 5, 1903 as a bank with limited liability in the State of New York and is an indirect wholly-owned subsidiary of Deutsche Bank AG. The Depositary operates under the laws of the State of New York and is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the Depositary is located at 60 Wall Street, New York, NY 10005 and the registered number is BR1026. A copy of the Depositary's By-laws, as amended, together with copies of the most recent financial statements and annual report of the Depositary will be available for inspection at the principal administrative establishment of the Depositary located at 60 Wall Street, DR Department, 27th Floor, New York, NY 10005 and at the office of the Depositary located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated as long as the GDSs are admitted to listing on the Official List.

LEGAL MATTERS

Certain legal matters with respect to the offering will be passed upon for us by Debevoise & Plimpton LLP. Certain legal matters under Russian law will be passed upon for us by Reznik, Gagarin, Abushahmin & Partners, Moscow, Russian Federation. Certain Russian tax matters will be passed upon for us and the Underwriters by ZAO PricewaterhouseCoopers Audit, Moscow, Russian Federation. Certain legal matters with respect to the offering will be passed upon for the Underwriters by Linklaters, London, England and Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The consolidated financial statements of NLMK and its subsidiaries as of December 31, 2004 and 2003 and for each of the two years in the period ended December 31, 2004, included in this prospectus, have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, Kosmodamianskaya Nab. 52, Bldg. 5, Moscow 15054, Russian Federation, as stated in their report appearing herein (which contains a qualification with respect to accounting for property, plant and equipment as described in Note 10 to the consolidated financial statements). ZAO PricewaterhouseCoopers Audit is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*) and The Institute of Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rossii*).

The consolidated financial statements of NLMK and its subsidiaries as of December 31, 2002 and 2001 and for each of the two years then ended, included in this prospectus, have been audited by KPMG Limited, independent auditors, 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation, as stated in their report appearing herein. KPMG Limited is registered with the Public Company Accounting Oversight Board (PCAOB).

The consolidated financial statements of Stoilensky GOK as of and for the years ended December 31, 2002 and 2003, included in this prospectus, have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, Kosmodamianskaya Nab. 52, Bldg. 5, Moscow 15054, Russian Federation, as stated in their report appearing herein.

LISTING AND GENERAL INFORMATION

1. It is expected that the GDSs will be admitted to the Official List on or about December 15, 2005. Application has been made for the GDSs to be traded on the Regulated Market of the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. NLMK was incorporated in the Russian Federation on January 28, 1993, as a joint stock company for an unlimited duration, and it operates under the laws of the Russian Federation. NLMK is registered at the Central Region (Lipetsk) Department of the Ministry of Taxes and Duties of the Russian Federation, with registration number 1024800823123. NLMK's main administrative office and its registered office are located at Pl. Metallurgov 2, Lipetsk 398040, Russian Federation and its telephone number is +7 4742 44-00-41.
3. Copies of the following will be available for inspection and may be obtained free of charge, during normal business hours on any weekday, at the office of Debevoise & Plimpton LLP, Tower 42, Old Broad Street, London EC2N 1HQ, United Kingdom for the duration of the offering:
 - the charter of NLMK (English translation);
 - the Deposit Agreements;
 - copies of NLMK's audited consolidated financial statements as of December 31, 2002, 2003 and 2004 and for the years then ended, together with the auditors' reports relating thereto, and copies of NLMK's unaudited consolidated interim financial statements as of September 30, 2004 and 2005 and for the nine months then ended; and
 - copies of Stoilensky GOK's audited consolidated financial statements as of December 31, 2002 and 2003 and for the years then ended, together with the auditors' report relating thereto.
4. If definitive certificates are issued in exchange for the Master GDSs, NLMK will appoint an agent in the United Kingdom.
5. The Rule 144A GDSs will be accepted for clearance through the facilities of DTC and the Regulation S GDSs will be accepted for clearance through Euroclear and Clearstream. The Common Code for the Regulation S GDSs is 022035436, the ISIN for the Regulation S GDSs is US67011E2046, the CUSIP number for the Regulation S GDSs is 67011E 20 4 and the SEDOL is BORTNX3. The Common Code for the Rule 144A GDSs is 022035363, the ISIN for the Rule 144A GDSs is US67011E1055, the CUSIP number for the Rule 144A GDSs is 67011E 10 5 and the SEDOL is BORT8M7. The ISIN for the Shares is RU0009046452.
6. There has been no significant change in our financial or trading position since September 30, 2005 (the date of the latest unaudited interim financial statements).
7. The following table sets forth details of NLMK's significant subsidiary, OJSC Stoilensky GOK, which mines and processes iron ore.

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Beneficial Ownership⁽¹⁾</u>	<u>Voting Interest⁽²⁾</u>	<u>Registered office</u>
OJSC Stoilensky GOK	Russia	96.98%	96.98%	Stariy Oskol, Belgorod Oblast, 309530, Russian Federation

(1) "Beneficial ownership" represents the percentage of ownership interests of this entity that are beneficially owned by NLMK, directly or indirectly, based on NLMK's proportionate ownership of this entity through its consolidated subsidiaries. NLMK's ownership interests in the subsidiary presented above are calculated based on shares owned by NLMK as well as shares owned by certain companies affiliated but not owned by NLMK, which NLMK is required to consolidate under U.S. GAAP. There are currently no ownership interests of these affiliated companies in the subsidiary listed above.

(2) "Voting interest" represents the percentage of ownership interests of the relevant entity that NLMK or any of its consolidated subsidiaries has the power to vote.

8. The GDSs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Underwriters. The prospectus and the results of the offering will be made available to the public by us at the offices in London of UBS Limited and Merrill Lynch International and at the registered office of NLMK upon the closing of the offering.

9. Holders of GDSs may contact Deutsche Bank Trust Company Americas, as depositary in the United Kingdom for the GDSs (Attn: Broker Services, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, tel +44 207 547 6500) with questions relating to the transfer of GDSs on the books of the Depositary, which shall be maintained at the Depositary's corporate trust office at 60 Wall Street, New York, New York 10005 (tel +1 212 250 9100).
10. We have set forth below summaries of each material contract, other than contracts entered into in the ordinary course of business, to which we are a party, for the two years immediately preceding publication of this prospectus, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by us, which contain any provisions under which we have any obligation or entitlement material to us at the date of this prospectus.

10.1 Material Share Purchase Agreements

- 10.1.1 Share Purchase Agreement dated October 12, 2004, between us and the Russian Federal Property Fund, pursuant to which we purchased from the Russian Federal Property Fund 2.735% of shares in Stoilensky GOK for approximately \$7.0 million.
- 10.1.2 Share Purchase Agreement dated October 6, 2004, between us and Scantous Limited Company, pursuant to which we purchased from Scantous Limited Company 2.5% of shares in Stoilensky GOK for approximately \$10.1 million.
- 10.1.3 Share Purchase Agreement dated October 6, 2004, between us, Scantous Limited Company and Ancastero Limited, pursuant to which we purchased from Scantous Limited Company and Ancastero Limited 28.634% of shares in Stoilensky GOK. See "Transactions with Related Parties".
- 10.1.4 Share Purchase Agreement dated September 24, 2004, between us and LLC Stalh, pursuant to which we purchased from LLC Stalh 80,889 shares in KMA Ruda for approximately \$3.2 million.
- 10.1.5 Share Purchase Agreement dated May 28, 2004, between us and Smartnet Trade Limited, pursuant to which we purchased from Smartnet Trade Limited 39.5% of shares in OJSC TMTP for approximately \$150.6 million.
- 10.1.6 Share Purchase Agreement dated May 25, 2004, between us and Leverret Holding GmbH, pursuant to which we purchased from Leverret Holding GmbH 29.91% of shares in OJSC TMTP for approximately \$38.6 million.
- 10.1.7 Share Purchase Agreement dated March 2, 2004, between us, Limtan Investments Limited, Aheron Investments Limited and Omnilax Holdings Limited, pursuant to which we purchased from Limtan Investments Limited, Aheron Investments Limited and Omnilax Holdings Limited 59.8% of shares in Stoilensky GOK. See "Transactions with Related Parties".

10.2 Other Material Agreements

- 10.2.1 Surety Agreement dated March 31, 2004, between us and OAO AKB Rosbank, pursuant to which we guaranteed obligations of LLC Independent Leasing Company under Credit Agreement No. RK/019/04 of March 31, 2004 for a credit facility of up to approximately \$35.1 million in ruble equivalent, at an annual interest rate of no more than 25%, to be repaid by March 31, 2014. This agreement was terminated on December 31, 2004.
- 10.2.2 Surety Agreement dated December 24, 2003, between us and Bank Zenit, pursuant to which we guaranteed obligations of LLC Independent Leasing Company under Agreement No. 003/07/NLK of December 24, 2003 for a credit facility of up to approximately \$8.3 million in ruble equivalent at a 12.11% annual interest rate and 22.4% annual penalty, to be repaid by December 31, 2013. This agreement was terminated in 2004.
- 10.2.3 Trust Management Agreement dated June 19, 2003, between us and Lipetskcombank, pursuant to which Lipetskcombank undertook to manage approximately \$170 million of our assets for an annual fee of 0.3% of average assets amount, but not less than \$50,000 or \$80,000. This agreement was terminated in 2004.

GLOSSARY

2000 Mill	A mill, used to roll steel, which has a 2000 millimeter barrel width.
Billet	A semi-finished steel form that is used for steel long products such as bars, channels or other structural shapes. A billet is different from a slab because of its outer dimensions; billets are normally five to 18 centimeters square, while slabs are 75-225 centimeters wide and 18-25 centimeters thick. Both shapes are generally continuously cast, but they may differ greatly in their chemistry.
Blast furnace	A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the “blast” of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.
Bloom	Semi-finished steel form whose rectangular cross-section is more than eight inches. This large cast steel shape is broken down in the mill to produce rails, I-beams, H-beams and sheet piling. Blooms are also part of the high-quality bar manufacturing process.
BOF	A basic oxygen furnace, which is a pear-shaped furnace, lined with refractory bricks that refines molten iron from the blast furnace and scrap into steel.
Carbon steel	Type of steel generally having no specified minimum quantity of any alloying element and containing only an incidental amount of any element other than carbon, silicon, manganese, copper, sulphur and phosphorus.
Carlite	An inorganic insulating coating for grain-oriented electrical steels, typically a phosphate, chromate, or silicate coating, or combination thereof, which corresponds to a C-5-type insulating coating under the A976 ASTM classification.
Coating	The process of covering steel with another material (tin, chrome, zinc), primarily for corrosion resistance.
Coils	Steel sheet that has been wound. A slab, once rolled in a hot-strip mill, can be more than one mile long; coils are the most efficient way to store and transport sheet steel.
Coke	The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal. About 450 kilograms of coke are needed to process a tonne of hot metal, an amount which constitutes more than 50% of an integrated steel mill’s total energy use. Coke is used because metallurgical coal burns sporadically and reduces into a sticky mass. Processed coke, however, burns steadily inside and out, and is not crushed by the weight of the iron ore in the blast furnace. It is produced inside the narrow confines of a coke oven, in which coal is heated without oxygen for 18 hours to drive off gases and impurities.
Coking coal	Bituminous coal used in the production of steel in basic oxygen furnaces, generally low in sulphur and phosphorous.
Cold-rolling	Changes in the structure and shape of steel achieved through rolling the steel at a low temperature (often room temperature). It is used to create a permanent increase in the hardness and strength of the steel. It is effected by the application of forces to the steel which causes

change in the composition, enhancing certain properties. In order for these improvements to be sustained, the temperature must be below a certain range because the structural changes in the steel are eliminated by higher temperatures.

Continuous casting	A method of pouring steel directly from a ladle through a tundish into a mold, shaped to form billets, blooms or slabs. Continuous casting avoids the need for large mills for rolling ingots into slabs. Continuous cast slabs also solidify in a few minutes, versus several hours for an ingot. Because of this, the chemical composition and mechanical properties are more uniform.
Crude steel	Steel in primary form of hot molten metal.
Finished steel products	Steel that has been processed from crude steel into semi-finished steel products, such as slabs, or into rolled steel products.
Flat-rolled steel/Flat products	Category of steel that includes sheet, strip and tin plate, among others.
Galvanized steel	Steel coated with a thin layer of zinc to provide corrosion resistance in underbody auto parts, garbage cans, storage tanks, fencing wire, etc. Sheet steel normally must be cold-rolled prior to galvanizing. Galvanized steel is subdivided into hot-dipped galvanized and electrogalvanized steel. Electrogalvanizing equipment is more expensive to build and operate than hot-dipping equipment, but it gives the maker more precise control over the weight of the zinc coating.
Hi-B	The term Hi-B is used to describe high grade grain-oriented electrical steels with high permeability and low incremental no-load magnetic losses.
Hot-rolling mill	The rolling mill that reduces a hot slab into a coil of specified thickness; the whole processing is done at a relatively high temperature (when the steel is still red).
Hot-rolled	Product that is sold in its “as-produced” state off the hot-rolling mill with no further reduction or processing steps, aside from being pickled and oiled (if specified).
Indicated Mineral Resources	An Indicated Mineral Resource is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
Iron-ore	Mineral containing enough iron to be a commercially viable source of the element for use in steel making.
Iron ore concentrate	Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed by undergoing treatment.
Long products	Classification of steel products that includes bars, rods and structural products that are “long” rather than “flat”.
Magnetic separator	A device used in a process when magnetically susceptible mineral is separated from gangue minerals by applying a strong magnetic field.

Mineral Resource	A concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.
Open-pit mining	A surface mining operation in which blocks of earth are dug from the surface to extract the ore contained in them.
Pig Iron	An alloy of iron and carbon, with a carbon content in excess of 2.14%, that is produced in a blast furnace.
Probable reserve	The economically mineable part of an Indicated Mineral Resource.
Profiles	See "Sections".
Rebar or Reinforcement bar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Reserve	That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
Rolled steel (products)	Steel produced from a semi-finished steel to a desired thickness by being passed through a set of rollers. In relation to NLMK, it refers to the various flat-rolled steel products that we produce, including hot-rolled steel, cold-rolled steel, galvanized steel and electrical steels.
Scrap (Ferrous)	Ferrous (iron-containing) material that generally is remelted and recast into new steel in electric arc furnaces. Integrated steel mills also use scrap for up to 25% of their basic oxygen furnace charge. Scrap includes waste steel generated from within the steel mill, through edge trimming and rejects, as well as excess steel trimmed by auto and appliance stampers, which is auctioned to scrap buyers as factory bundles.
Sections	Blooms or billets that are hot-rolled in a rolling mill to form, among other shapes, "L" "U" "T" or "I" shapes. Sections can also be produced by welding together pieces of flat products. Sections can be used for a wide variety of purposes in the construction, machinery and transport industries. These are also known as "profiles".
Semi-finished steel	Steel shapes — for example, blooms, billets or slabs — that may later be processed into more finished "rolled" products such as sheet.
Sheet steel	Thin, flat-rolled steel created in a hot-strip mill by rolling a cast slab flat while maintaining the side dimensions. The malleable steel lengthens to several thousand feet as it is squeezed by the rolling mill. The most common differences among steel bars, strip, plate and sheet are merely their physical dimensions of width and gauge (thickness).
Sintering	A process that combines iron-bearing particles into small chunks. Previously, these materials were too fine to withstand the air currents of the smelting process and were thrown away. The iron is now conserved because the chunks can be charged into the blast furnace.
Slab	The most common type of semi-finished steel. Traditional slabs measure 18-25 centimeters thick, 75-225 centimeters wide and are usually about 6-12 meters long, while the output of the recently

developed “thin slab” casters is approximately five centimeters thick. After casting, slabs sent to the hot-strip mill to be rolled into coiled sheet and plate products.

Strip Thin, flat steel that resembles hot-rolled sheet, but it is normally narrower (up to 30 centimeters wide) and produced to more closely control thicknesses. Strip also may be cut from steel sheet by a slitting machine (see Sheet steel).

Tonne A metric tonne, equal to 1,000 kilograms.

Underground mining Mining for extracting the ore below the surface.

Wire rod Round, thin, semi-finished steel length that is rolled from a billet and coiled for further processing. Wire rod is commonly drawn into wire products or used to make bolts and nails. Wire rod trains (rolling facilities) can run as fast as 6,000 meters per minute.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) OF OJSC NOVOLIPETSK STEEL AS AT SEPTEMBER 30, 2005 AND DECEMBER 31, 2004 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

Report of Independent Accountants ZAO PricewaterhouseCoopers Audit on the interim financial statements	I-3
Interim condensed consolidated balance sheets as at September 30, 2005 and December 31, 2004	I-4
Interim condensed consolidated statements of income for the nine months ended September 30, 2005 and 2004	I-5
Interim condensed consolidated statements of cash flows for the nine months ended September 30, 2005 and 2004	I-6
Interim condensed consolidated statements of stockholders' equity and comprehensive income for the nine months ended September 30, 2005 and 2004	I-7
Notes to the interim condensed consolidated financial statements	I-8 – I-17

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF OJSC NOVOLIPETSK STEEL AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Report of Independent Auditors ZAO PricewaterhouseCoopers Audit on the 2004 and 2003 financial statements	F-4
Consolidated balance sheets as at December 31, 2004, 2003 and 2002	F-5
Consolidated statements of income for the years ended December 31, 2004, 2003 and 2002 ..	F-6
Consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002	F-7
Consolidated statements of stockholders' equity and comprehensive income for the years ended December 31, 2004, 2003 and 2002	F-9
Notes to the consolidated financial statements	F-10 – F-42

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF OJSC NOVOLIPETSK STEEL AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

Report of Independent Auditors KPMG Limited on the 2002 and 2001 financial statements ..	F-44
Consolidated balance sheets as at December 31, 2002 and 2001	F-45
Consolidated statements of income for the years ended December 31, 2002 and 2001	F-46
Consolidated statements of cash flows for the years ended December 31, 2002 and 2001	F-47
Consolidated statements of stockholders' equity and comprehensive income for the years ended December 31, 2002 and 2001	F-48
Notes to the consolidated financial statements as at and for the years ended December 31, 2002 and 2001	F-49 – F-65

ANNUAL FINANCIAL STATEMENTS OF OJSC STOILENSKY GOK AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Report of Independent Auditors ZAO PricewaterhouseCoopers Audit	F-68
Balance sheets as at December 31, 2003 and 2002	F-69
Statements of income for the years ended December 31, 2003 and 2002	F-70
Statements of cash flows for the years ended December 31, 2003 and 2002	F-71
Statements of stockholders' equity and comprehensive loss for the years ended December 31, 2003 and 2002	F-72
Notes to the financial statements	F-73 – F-84

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OJSC NOVOLIPETSK STEEL

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

**PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

**AS AT SEPTEMBER 30, 2005 AND DECEMBER 31, 2004
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

OJSC Novolipetsk Steel

**Interim condensed consolidated financial statements (unaudited)
as at September 30, 2005 and December 31, 2004 and
for the nine months ended September 30, 2005 and 2004**

CONTENTS

Report of independent accountants	I-3
Interim condensed consolidated balance sheets	I-4
Interim condensed consolidated statements of income	I-5
Interim condensed consolidated statements of cash flows	I-6
Interim condensed consolidated statements of stockholders' equity and comprehensive income	I-7
Notes to the interim condensed consolidated financial statements	I-8 – I-17

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of OJSC Novolipetsk Steel

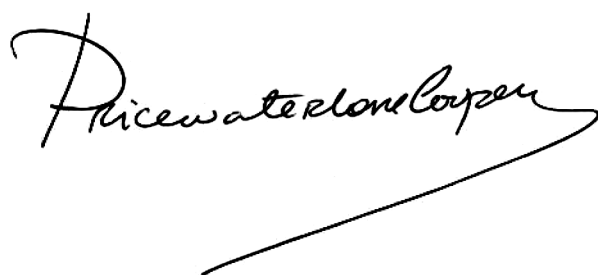
We have reviewed the accompanying condensed consolidated balance sheet of OJSC Novolipetsk Steel and its subsidiaries ("the Group") as of September 30, 2005, and the related condensed consolidated statements of income and cash flows and stockholders' equity and comprehensive income for each of the nine-month periods ended September 30, 2005 and September 30, 2004. These interim financial statements are the responsibility of the Group's management.

We conducted our review in accordance with the standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 6 to the interim condensed consolidated financial statements, the carrying value of certain property, plant and equipment was determined with the assistance of an independent appraiser, who provided US dollar estimates of the fair value of the Group's property, plant and equipment.

Based on our review, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment as discussed in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as of December 31, 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated April 15, 2005, we expressed an unqualified opinion on such financial statements, except for the same matter discussed in the third paragraph of this report. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.



Moscow, Russian Federation
November 23, 2005

OJSC Novolipetsk Steel

Interim condensed consolidated balance sheets
as at September 30, 2005 and December 31, 2004 (unaudited)
(All amounts in thousands of US dollars, except for share data)

	Note	As at September 30, 2005	As at December 31, 2004
ASSETS			
Current assets			
Cash and cash equivalents	2	1,932,743	1,348,615
Short-term investments		18,600	21,153
Accounts receivable, net	3	624,756	588,562
Inventories, net	4	500,028	475,303
Other current assets, net	5	178,884	148,748
Restricted cash		7,897	5,094
		3,262,908	2,587,475
Non-current assets			
Long-term investments		46,831	51,425
Property, plant and equipment, net	6	2,375,278	2,257,628
Intangible assets, net		17,872	21,594
Goodwill		175,082	179,815
Other non-current assets, net	5	88,671	67,984
		2,703,734	2,578,446
Total assets		5,966,642	5,165,921
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	7	704,355	455,042
Current income tax liability		26,192	78,638
Short-term capital lease liability		—	232
		730,547	533,912
Non-current liabilities			
Deferred income tax liability		309,626	305,472
Other long-term liabilities	8	47,070	19,946
Long-term capital lease liability		—	313
		356,696	325,731
Total liabilities		1,087,243	859,643
Commitments and contingencies	14	—	—
Minority interest		86,417	85,787
Stockholders' equity			
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at September 30, 2005 and December 31, 2004		221,173	221,173
Statutory reserve		10,267	10,267
Additional paid-in capital		32,143	680
Other comprehensive income		119,894	242,387
Retained earnings		4,409,505	3,745,984
		4,792,982	4,220,491
Total liabilities and stockholders' equity		5,966,642	5,165,921

The interim condensed consolidated financial statements as set out on pages I-4 to I-17 were approved on November 23, 2005.

General Director
Nastich V.P.

Chief accountant
Sokolov A.A.

The accompanying notes constitute an integral part of these interim condensed consolidated financial statements

OJSC Novolipetsk Steel

Interim condensed consolidated statements of income
for the nine months ended September 30, 2005 and 2004 (unaudited)
(All amounts in thousands of US dollars, except for earnings per share amounts)

	Note	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Sales revenue	11	3,387,729	3,215,222
Cost of sales			
Production cost		(1,548,077)	(1,360,036)
Depreciation and amortization		(210,556)	(173,824)
		(1,758,633)	(1,533,860)
Gross profit		1,629,096	1,681,362
General and administrative expenses		(111,960)	(46,429)
Selling expenses		(48,003)	(45,543)
Taxes other than income tax		(36,572)	(24,437)
Operating income		1,432,561	1,564,953
Loss on disposals of property, plant and equipment		(6,923)	(6,050)
(Loss) / gain on investments		(1,104)	141,159
Interest income		73,043	33,713
Interest expense		(10,741)	(9,484)
Foreign currency exchange loss, net		(18,970)	(5,233)
Other expenses, net		(8,243)	(2,732)
Income before income tax and minority interest		1,459,623	1,716,326
Income tax		(394,783)	(405,665)
Income before minority interest		1,064,840	1,310,661
Equity in net earnings of associate		3,601	—
Minority interest		(22,653)	(16,053)
Net income		1,045,788	1,294,608
Income from continuing operations per share (US dollars)			
basic and diluted	9	0.1745	0.2160
Net income per share (US dollars)			
basic and diluted	9	0.1745	0.2160

The accompanying notes constitute an integral part of these condensed consolidated financial statements

OJSC Novolipetsk Steel
**Interim condensed consolidated statements of cash flows
for the nine months ended September 30, 2005 and 2004 (unaudited)**
(thousands of US dollars)

	Note	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		1,045,788	1,294,608
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		22,653	16,053
Depreciation and amortization		210,556	173,824
Loss on disposals of property, plant and equipment		6,923	6,050
Loss/(gain) on investments		1,104	(141,159)
Equity in net earnings of associate		(3,601)	—
Deferred income tax expense		12,716	6,992
Stock-based compensation	13(e)	31,463	—
Other movements		(21,228)	(20,345)
Changes in operating assets and liabilities			
Increase in accounts receivables		(54,577)	(333,679)
Increase in inventories		(40,712)	(78,683)
Increase in other current assets		(10,817)	(72,091)
Increase in loans provided by the subsidiary bank		(45,056)	(11,708)
Increase in customers' deposits in subsidiary bank		33,966	20,657
Increase in accounts payable and other liabilities		42,311	56,018
(Decrease)/increase in current income tax payable		(49,198)	20,450
Net cash provided by operating activities		1,182,291	936,987
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		8,973	7,841
Purchases and construction of property, plant and equipment		(420,908)	(172,611)
Proceeds from sale of investments		54,617	163,385
Purchase of investments		(30,766)	(170,238)
Acquisition of subsidiaries, net of cash acquired of \$38,109	10	—	(151,063)
Movement of restricted cash		(2,974)	3,956
Net cash used in investing activities		(391,058)	(318,730)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and notes payable		17,045	352
Repayment of borrowings and notes payable		(6,223)	(21,664)
Capital lease payments		—	(9,467)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary, net of cash of \$1,070 received in transferred subsidiary	10	—	(509,005)
Dividends to shareholders		(174,643)	(122,343)
Net cash used in financing activities		(163,821)	(662,127)
Net increase / (decrease) in cash and cash equivalents		627,412	(43,870)
Effect of exchange rate changes on cash and cash equivalents		(43,284)	8,539
Cash and cash equivalents at the beginning of the period	2	1,348,615	729,641
Cash and cash equivalents at the end of the period	2	1,932,743	694,310

The accompanying notes constitute an integral part of these condensed consolidated financial statements

OJSC Novolipetsk Steel
Interim condensed consolidated statements of stockholders' equity and comprehensive income for the nine months ended September 30, 2005 and 2004 (unaudited)
(thousands of US dollars)

	Note	Common stock	Statutory reserve	Additional paid-in capital	Other comprehensive income	Retained earnings	Total stockholders' equity
Balance as at December 31, 2003		14,440	32	680	27,672	2,567,084	2,609,908
Net income		—	—	—	—	1,294,608	1,294,608
Stock split		206,733	—	—	—	(206,733)	—
Increase in statutory reserve		—	10,235	—	—	(10,235)	—
Dividends to shareholders		—	—	—	—	(124,834)	(124,834)
Transfers of subsidiary interests from controlling shareholders	10(a)	—	—	—	—	598,735	598,735
Payments to controlling shareholders for common control transfer of subsidiary interests	10(a)	—	—	—	—	(510,075)	(510,075)
Other comprehensive income:							
Net unrealized loss on a change in valuation of investments		—	—	—	(26)	—	(26)
Cumulative translation adjustment		—	—	—	3,737	—	3,737
Balance as at September 30, 2004		221,173	10,267	680	31,383	3,608,550	3,872,053
Balance as at December 31, 2004		221,173	10,267	680	242,387	3,745,984	4,220,491
Net income		—	—	—	—	1,045,788	1,045,788
Stock-based compensation	13(e)	—	—	31,463	—	—	31,463
Dividends to shareholders		—	—	—	—	(382,267)	(382,267)
Other comprehensive income:							
Net unrealized gain on a change in valuation of investments		—	—	—	9	—	9
Cumulative translation adjustment		—	—	—	(122,502)	—	(122,502)
Balance as at September 30, 2005		221,173	10,267	32,143	119,894	4,409,505	4,792,982

The accompanying notes constitute an integral part of these condensed consolidated financial statements

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

1 BASIS OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

These unaudited interim condensed consolidated financial statements should be read in conjunction with the open joint stock company Novolipetsk Steel (the “Parent Company”, or NLMK) and its subsidiaries (together – the “Group”) audited consolidated financial statements as of and for the year ended December 31, 2004. The December 31, 2004 condensed consolidated balance sheet information has been derived from audited consolidated financial statements, however, since it is presented on a condensed basis it does not include all the disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

In the opinion of the Group’s management, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the period reported herein. All such adjustments are of a normal recurring nature. The financial results of the period reported herein is not necessarily indicative of future financial results.

Functional and reporting currency

The Group’s functional currency, which is considered to be the Russian ruble, was translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52.

The Central Bank of the Russian Federation’s closing rates of exchange ruling at September 30, 2005, December 31, 2004, September 30, 2004 and December 31, 2003 were 1 US dollar to 28.4989, 27.7487, 29.2171 and 29.4545 Russian rubles, respectively. The period weighted average exchange rates were 28.1455 and 28.9116 Russian rubles to 1 US dollar for the nine months ended September 30, 2005 and September 30, 2004, respectively.

Recent accounting pronouncements

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. The interpretation requires entities to record a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The term “conditional asset retirement obligation” refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation shall be effective no later than December 31, 2005. The Group believes that the adoption of this interpretation in 2005 will not have a material impact on its consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. This Statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The Statement shall be effective for accounting changes made in fiscal years beginning after December 15, 2005. The Group can not estimate the effect that this standard will have related to future adoption of accounting standards that will be applied retroactively.

OJSC Novolipetsk Steel

**Notes to the interim condensed consolidated financial statements
as at September 30, 2005 and December 31, 2004
and for the nine months ended September 30, 2005 and 2004 (unaudited)**
(thousands of US dollars)

2 CASH AND CASH EQUIVALENTS

	As at September 30, 2005	As at December 31, 2004
Cash – Russian rubles	265,900	269,860
Cash – foreign currency	4,846	2,437
Deposits – Russian rubles	241,232	39,822
Deposits – US dollars	923,614	709,457
Deposits – Euro	496,343	310,782
Other cash equivalents	808	16,257
	<u>1,932,743</u>	<u>1,348,615</u>

3 ACCOUNTS RECEIVABLE

	As at September 30, 2005	As at December 31, 2004
Trade accounts receivable	373,981	357,948
Advances given to suppliers	60,447	57,260
Taxes receivable	183,117	157,736
Accounts receivable from employees	1,610	1,192
Other accounts receivable	18,622	22,765
	637,777	596,901
Allowance for doubtful debts	(13,021)	(8,339)
	<u>624,756</u>	<u>588,562</u>

As at September 30, 2005 and December 31, 2004, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade, UK, and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled \$102,065, \$90,335 and \$45,962 at September 30, 2005 and \$140,265, \$102,908 and \$50,342 at December 31, 2004, respectively.

4 INVENTORIES

	As at September 30, 2005	As at December 31, 2004
Raw materials	343,632	333,414
Work in process	118,357	102,692
Finished goods and goods for resale	45,942	47,054
	507,931	483,160
Provision for obsolescence	(7,903)	(7,857)
	<u>500,028</u>	<u>475,303</u>

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements
as at September 30, 2005 and December 31, 2004
and for the nine months ended September 30, 2005 and 2004 (unaudited)
(thousands of US dollars)

5 OTHER CURRENT AND NON-CURRENT ASSETS

	As at September 30, 2005	As at December 31, 2004
Other current assets		
Short-term loans provided by subsidiary	158,374	131,267
Other current assets	25,312	20,047
	183,686	151,314
Allowance for doubtful loans	(4,802)	(2,566)
Total other current assets	178,884	148,748
Other non-current assets		
Long-term loans provided by subsidiary	56,334	37,500
Other non-current assets	32,337	30,484
Total other non-current assets	88,671	67,984

The loans are provided to customers and other banks by the subsidiary bank of the Group. The interest rates on outstanding loans to customers as at September 30, 2005 range from 7% per annum to 22% per annum for loans denominated in Russian rubles and from 8% per annum to 16% per annum for foreign currency loans.

6 PROPERTY, PLANT AND EQUIPMENT

	As at September 30, 2005	As at December 31, 2004
Land	56,126	46,466
Mineral rights	527,618	500,996
Buildings	690,926	715,759
Land and buildings improvements	765,231	798,892
Machinery and equipment	4,247,165	4,320,088
Vehicles	217,676	205,297
Construction in progress and advances for construction and acquisition of property, plant and equipment	432,481	254,271
Leased assets	—	862
Other	37,807	38,787
	6,975,030	6,881,418
Accumulated depreciation	(4,599,752)	(4,623,790)
Net book value	2,375,278	2,257,628

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as of January 1, 2000. As at September 30, 2005 and December 31, 2004, the net book value of these items amounted to 22% and 28% of total net book value of property, plant and equipment, respectively.

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

7 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at September 30, 2005	As at December 31, 2004
Trade accounts payable	91,304	78,651
Advances received	137,402	127,776
Customers' deposits and accounts in the subsidiary bank	168,949	156,176
Taxes payable other than income tax	23,841	19,044
Accounts payable and accrued liabilities to employees	56,224	51,628
Dividends payable	212,223	6,332
Notes payable	5,178	5,312
Other accounts payable	9,234	10,123
	<u>704,355</u>	<u>455,042</u>

8 OTHER LONG-TERM LIABILITIES

	As at September 30, 2005	As at December 31, 2004
Customers' deposits in the subsidiary bank	32,385	16,150
Notes and loans payable	14,685	3,796
	<u>47,070</u>	<u>19,946</u>

9 EARNINGS PER SHARE

	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Average number of shares		
before restatement	5,993,227,240	3,261,822,131
after restatement	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	<u>1,045,788</u>	<u>1,294,608</u>
Basic and diluted net income per share (US dollars)	<u>0.1745</u>	<u>0.2160</u>

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period.

The Parent Company does not have potentially dilutive shares outstanding.

In May 2005 the Parent Company declared dividends for the year ended December 31, 2004 of 1.8 Russian ruble per share for the total \$385,556, including interim dividends for the nine months ended September 30, 2004 of 1 Russian ruble per share (\$214,081).

In September 2005 the Parent Company declared interim dividends for the six months ended June 30, 2005 of 1 Russian ruble per share for the total of \$210,792. Dividends payable amount to \$212,223 at September 30, 2005 (Note 7).

10 BUSINESS COMBINATIONS

(a) OJSC Stoilensky GOK

In March 2004 companies under the common control of the controlling shareholders of the Parent Company transferred to the Parent Company 59.8% and in November 2004 – 31.1% of the outstanding common shares of

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

10 BUSINESS COMBINATIONS (continued)

OJSC Stoilensky GOK. In these interim condensed consolidated financial statements, the Group accounted for these transfers retrospectively, in a manner similar to pooling by reflecting the controlling shareholders' book value of their acquisition cost in such transfers of \$598,735 as capital contributions. During the nine months ended September 30, 2004, the Group transferred cash consideration to such control parties of \$510,075 for the transfer of 59.8% of OJSC Stoilensky GOK, which was reflected as distributions to controlling shareholders. The remaining part of the consideration, \$126,378, was transferred to the control parties in December 2004. The Group's ownership of the common shares of OJSC Stoilensky GOK as at September 30, 2005 and December 31, 2004 is 96.98%.

(b) OJSC TMTP

In June 2004 the Group acquired 69.4% of the common stock of OJSC TMTP for a consideration of \$189,172 paid in cash to unrelated parties. The Group also obtained control over its subsidiaries OJSC Tuapse Dockyard, OJSC Tuapsegrazhdanstroi, LLC Nafta-T and LLC Karavella. The agreement contains no future contingent payments or commitments.

11 SEGMENTAL INFORMATION

The Group has two reportable business segments: steel and mining. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above two segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is attributable to two operating segments of the Group. Those segments include the trade seaport services business, represented by OJSC TMTP and its subsidiaries, and finance business, comprising banking and insurance services to commercial and retail customers. None of these segments has met any of the quantitative thresholds for determining reportable segments.

The Group accounts for intersegmental sales and transfers as if the sales or transfers were to third parties.

The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

Information on segmental transactions for the nine months ended September 30, 2005 and their assets as at September 30, 2005 is as follows:

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	3,160,099	98,595	129,035	3,387,729	—	3,387,729
Intersegmental revenue	3,281	368,620	2,337	374,238	(374,238)	—
Gross profit	1,310,266	261,324	42,228	1,613,818	15,278	1,629,096
Operating income	1,154,001	240,497	31,056	1,425,554	7,007	1,432,561
Income before minority interest	847,832	195,058	30,350	1,073,240	(8,400)	1,064,840
Segment assets, including goodwill	4,399,753	1,074,743	695,165	6,169,661	(203,019)	5,966,642

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

11 SEGMENTAL INFORMATION (continued)

Information on segmental transactions for the nine months ended September 30, 2004 and their assets as at December 31, 2004 is as follows:

	<u>Steel</u>	<u>Mining</u>	<u>All other</u>	<u>Totals</u>	<u>Intersegmental operations and balances</u>	<u>Consolidated</u>
Revenue from external customers . . .	3,143,589	49,567	22,066	3,215,222	—	3,215,222
Intersegmental revenue	2,958	206,424	85	209,467	(209,467)	—
Gross profit	1,555,905	116,198	8,205	1,680,308	1,054	1,681,362
Operating income	1,459,434	105,404	8,142	1,572,980	(8,027)	1,564,953
Income before minority interest . . .	1,223,124	78,947	12,112	1,314,183	(3,522)	1,310,661
Segment assets, including goodwill . .	3,767,196	984,495	654,131	5,405,822	(239,901)	5,165,921

12 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Russian Government, together with tax, legal and political developments.

(b) Convertibility of Russian ruble

Exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Group is required to convert 10% of its hard currency earnings into Russian rubles starting 2005 (25% before 2005). Future movements in the exchange rate between the Russian ruble and the US dollar will affect the reported US dollar amounts related to the Russian ruble carrying values of the Group's assets and liabilities. Such movements may also affect the Group's ability to realize assets presented in US dollars in these interim condensed consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such 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.

(c) Commercial risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to unexpected changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

The Group's exports in monetary terms for the nine months ended September 30, 2005 and September 30, 2004 were 58% and 63% of the total sales, respectively.

The Group relies on export sales to generate foreign currency earnings. As the Group exports a significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks. Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes.

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

12 RISKS AND UNCERTAINTIES (continued)

The Group sells to three international traders that account for the majority of its export sales. During the nine months ended September 30, 2005 Steelco Mediterranean Ltd., Cyprus, Tuscany Intertrade, UK, and Moorfield Commodities Company, UK, purchased 43%, 25% and 17% of the Group's export sales, respectively (44%, 31% and 16% during the nine months ended September 30, 2004, respectively). Price fluctuations of sales to these companies are in line with general trends in global prices fluctuations. The Group's export prices are comparable to the prices of Russian competitors. In August 2005, 1.199% of the share capital of the Parent Company was acquired by a company beneficially owned by shareholders of these traders.

The Group's future profitability and overall performance is strongly affected by the prices of ferrous metal products set in the international metal trading market that are subject to significant fluctuations.

13 RELATED PARTY TRANSACTIONS

Related party relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at September 30, 2005 and December 31, 2004 and transactions for the nine months ended September 30, 2005 and September 30, 2004 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either the companies under common control of the controlling shareholders of the Parent Company ("the Companies under common control"), or companies under control or significant influence of the Group's management, were \$28,084 and \$42,040 for the nine months ended September 30, 2005 and September 30, 2004, respectively. Related accounts receivable equaled \$4,420 and \$6,501 as at September 30, 2005 and December 31, 2004, respectively.

Purchases and services

Purchases of raw materials, technological equipment, energy and management services from related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were \$124,335, and \$177,674 for the nine months ended September 30, 2005 and September 30, 2004, respectively.

During the nine months ended September 30, 2004, the Group made payments to one of the Companies under common control, acting as an agent between the Group and railroad companies, for the transportation of raw materials and the Group's products. The payments included both railroad tariff (transferred to railroad companies) and agent fee, retained by the agent. The agent fee and purchases of other materials amounted to \$7,585 for the nine months ended September 30, 2004.

Accounts payable to the related parties were \$4,309 and \$2,044 as at September 30, 2005 and December 31, 2004, respectively.

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from Companies under common control or companies under the control or significant influence of the Group's management of \$6,632 and \$7,538 as at September 30, 2005 and December 31, 2004, respectively.

Deposits and current accounts of related parties, either the Companies under common control or companies under the control or significant influence of the Group's management, in the subsidiary bank amounted to \$53,006 and \$28,642 as at September 30, 2005 and December 31, 2004, respectively.

Deposits and current accounts of Group companies in a bank under significant influence of the Group's management amounted to \$62,992 as at September 30, 2005 (nil at December 31, 2004). Related interest income from these deposits and current accounts for the nine months ended September 30, 2005 amounted to \$9,499.

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

13 RELATED PARTY TRANSACTIONS (continued)

In 2004 the Group leased property, plant and equipment under capital lease arrangements with one of the Companies under common control. The amount of capital lease liabilities incurred during the nine months ended September 30, 2004 was \$19,920. The capital lease liabilities to the related party as at December 31, 2004 amounted to \$545. As at September 30, 2005 all capital lease transactions with related party were discontinued and liabilities were settled.

The Group granted interest-free loans to management, in the total amount of \$330 and \$70 for the nine months ended September 30, 2005 and September 30, 2004, respectively. The aggregate amount of such loans outstanding as at September 30, 2005 and December 31, 2004 was \$266 and \$60, respectively.

(c) Acquisition and investments

During the nine months ended September 30, 2004 the Companies under common control transferred to the Group a controlling stake in OJSC Stoilensky GOK, and the Group transferred cash consideration to such control parties (Note 10(a)).

(d) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund amounted to \$2,060 and \$1,931 for the nine months ended September 30, 2005 and September 30, 2004, respectively. The Group has the right to appoint and dismiss top management of the fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the fund.

(e) Stock-based compensation

In August 2005, the controlling shareholder of the Parent Company effectively sold 200,100,000 of NLMK shares to companies beneficially owned by certain members of its Board of Directors and management of the Group. The purchase price of these shares was based on the Russian Trade System ("RTS") trading price at the date of the transaction. This purchase price is payable by December 31, 2006 with no interest charged on the outstanding debt. The respective shares were pledged to secure the payment. There were no shares under such arrangements at the beginning of the year or in the nine months ended September 30, 2004 or at December 31, 2004. The only movements which took place in the nine month period ended September 30, 2005 were as described above.

This transaction was achieved through contractual arrangements between companies owned by the controlling shareholder of the Parent Company and companies beneficially owned by certain members of NLMK's Board of Directors and management of the Group, and therefore there was no cash outflow to the Group as a result of this transaction.

The Group applied SFAS No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123") for the purposes of accounting for this transaction, and recorded an expense of \$31,463 in general and administrative expenses in the nine months ended September 30, 2005, with a corresponding increase in stockholders' equity. The terms of such stock sale by the controlling shareholder resulted in variable accounting for such awards in the Group's financial statements. The arrangement effectively represents the granting of options, at zero consideration, to buy shares at the RTS trading price of the shares on the grant date (in August 2005), the option expiring on December 31, 2006.

The following assumptions were made in applying the Black-Scholes model in estimating the fair values of the options for the purposes of applying SFAS No. 123: risk-free interest rate on Russian dollar-denominated bonds of 4.5%, expected life of 1.33 years, expected volatility of 25.91%, and expected dividend yield of 4.24%.

14 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject to, from time to time, compliance reviews of importers' regulatory authorities and considered within anti-dumping investigation frameworks. The Group takes steps to addressing negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities.

OJSC Novolipetsk Steel

Notes to the interim condensed consolidated financial statements as at September 30, 2005 and December 31, 2004 and for the nine months ended September 30, 2005 and 2004 (unaudited) (thousands of US dollars)

14 COMMITMENTS AND CONTINGENCIES (continued)

No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying interim condensed consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the interim condensed consolidated financial statements.

(c) Environmental matters

The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the federal and regional authorities' requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Insurance

The Russian insurance market is in a developing stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment; land transport; an aircraft and purchased accident and health insurance; inter-city motor vehicle passenger insurance and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

(e) Capital commitments

Outstanding agreements in connection with equipment supply and construction works amounted to approximately \$328,803 and \$52,000 as at September 30, 2005 and December 31, 2004, respectively.

(f) 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 assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(g) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal

OJSC Novolipetsk Steel

**Notes to the interim condensed consolidated financial statements
as at September 30, 2005 and December 31, 2004
and for the nine months ended September 30, 2005 and 2004 (unaudited)**
(thousands of US dollars)

14 COMMITMENTS AND CONTINGENCIES (continued)

periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at September 30, 2005 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these interim condensed consolidated financial statements.

(h) Financial guarantees issued

As at September 30, 2005 and December 31, 2004 the Group has issued guarantees to third parties amounting to \$583 and \$1,365. No amount has been accrued in the interim condensed consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

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**OPEN JOINT STOCK COMPANY
NOVOLIPETSK STEEL**

CONSOLIDATED FINANCIAL STATEMENTS

**PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

**AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2004, 2003 AND 2002**

(WITH REPORTS OF INDEPENDENT AUDITORS THEREON)

OJSC NLMK

Consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

CONTENTS

Report of independent auditors on 2004 and 2003 financial statements	F-4
Consolidated balance sheets	F-5
Consolidated statements of income	F-6
Consolidated statements of cash flows	F-7
Consolidated statements of stockholders' equity and comprehensive income	F-9
Notes to the consolidated financial statements	F-10 – F-42

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Open Joint Stock Company Novolipetsk Steel

We have audited the accompanying consolidated balance sheets of Open Joint Stock Company Novolipetsk Steel and its subsidiaries (the "Group") as of December 31, 2004 and 2003, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income 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. The consolidated financial statements of the Group as of December 31, 2002 and for the year then ended, excluding the effects of the reclassifications and disclosures set out in Note 27, were audited by other independent auditors whose report dated June 9, 2003, included in page F-44, expressed an unqualified opinion on those financial statements.

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 audits 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.

As discussed in Note 10 to the consolidated financial statements, the cost of certain property, plant and equipment was determined with the assistance of an independent appraiser, who provided US dollar estimates of the fair value of the Group's property, plant and equipment.

In our opinion, except for the effects of using the appraisal to determine the carrying value for certain property, plant and equipment as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and 2003 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.

PricewaterhouseCoopers

Moscow, Russian Federation
April 15, 2005

OJSC NLMK**Consolidated balance sheets****as at December 31, 2004, 2003 and 2002***(All amounts in thousands of US dollars, except for share data)*

	Note	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002 (See Note 27)
ASSETS				
Current assets				
Cash and cash equivalents	4	1,348,615	729,641	382,957
Short-term investments	6	21,153	180,797	44,487
Accounts receivable, net	7	588,562	377,746	266,199
Inventories, net	8	475,303	301,303	210,628
Other current assets, net	9	148,748	63,336	32,242
Restricted cash	5	5,094	23,104	7,515
		2,587,475	1,675,927	944,028
Non-current assets				
Long-term investments	6	51,425	39,925	71,164
Property, plant and equipment, net	10	2,257,628	1,332,579	1,167,714
Intangible assets, net	11	21,594	—	—
Goodwill	11	179,815	—	—
Other non-current assets, net	9	67,984	36,834	16,080
		2,578,446	1,409,338	1,254,958
Total assets		5,165,921	3,085,265	2,198,986
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	12	455,042	251,687	154,105
Current income tax liability		78,638	23,032	17,106
Short-term capital lease liability		232	6,114	1,727
		533,912	280,833	172,938
Non-current liabilities				
Long-term capital lease liability		313	11,563	2,468
Deferred income tax liability	16	305,472	159,716	15,523
Other long-term liabilities	13	19,946	6,593	3,988
		325,731	177,872	21,979
Total liabilities		859,643	458,705	194,917
Commitments and contingencies	25	—	—	—
Minority interest	14	85,787	16,652	12,891
Stockholders' equity				
Common stock, 1 Russian ruble par value— 5,993,227,240, 5,987,240 and 5,987,240 shares issued and outstanding at December 31, 2004, 2003 and 2002	15	221,173	14,440	14,440
Statutory reserve	15	10,267	32	32
Additional paid-in capital		680	680	680
Other comprehensive income		242,387	27,672	3,723
Retained earnings		3,745,984	2,567,084	1,972,303
		4,220,491	2,609,908	1,991,178
Total liabilities and stockholders' equity		5,165,921	3,085,265	2,198,986

The consolidated financial statements as set out on pages F-5 to F-42 were approved on April 15, 2005.



General Director
Nastich V.P.



Chief accountant
Sokolov A.A.

The accompanying notes constitute an integral part of these consolidated financial statements

OJSC NLMK

Consolidated statements of income for the years ended December 31, 2004, 2003 and 2002

(All amounts in thousands of US dollars, except for earnings per share amounts)

	Note	For the year ended December 31, 2004	For the year ended December 31, 2003	For the year ended December 31, 2002 (See Note 27)
Sales revenue	22	4,538,686	2,468,022	1,711,657
Cost of sales				
Production cost		(1,888,702)	(1,293,330)	(950,058)
Depreciation and amortization		(243,656)	(157,809)	(146,327)
		(2,132,358)	(1,451,139)	(1,096,385)
Gross profit		2,406,328	1,016,883	615,272
General and administrative expenses		(92,517)	(69,524)	(37,655)
Selling expenses		(57,839)	(40,760)	(32,072)
Taxes other than income tax		(33,108)	(24,325)	(33,632)
Operating income		2,222,864	882,274	511,913
Loss on disposals of property, plant and equipment		(12,231)	(7,949)	(8,895)
Gain / (loss) on investments		165,174	12,136	(2,675)
Interest income		50,069	33,633	14,218
Interest expense		(12,296)	(7,344)	(3,386)
Foreign currency exchange loss, net		(39,101)	(42,999)	(18,247)
Other income / (expense), net		(10,477)	11,983	(26,054)
Income before income tax and minority interest		2,364,002	881,734	466,874
Income tax	16	(572,221)	(223,035)	(129,699)
Income before minority interest		1,791,781	658,699	337,175
Minority interest	14	(19,280)	(2,243)	1,243
Net income		1,772,501	656,456	338,418
Income from continuing operations per share (US dollars)				
basic and diluted		0.2958	0.1095	0.0565
Net income per share (US dollars)				
basic and diluted	17	0.2958	0.1095	0.0565

The accompanying notes constitute an integral part of these consolidated financial statements

OJSC NLMK
Consolidated statements of cash flows
for the years ended December 31, 2004, 2003 and 2002
(thousands of US dollars)

	Note	For the year ended December 31, 2004	For the year ended December 31, 2003	For the year ended December 31, 2002
(See Note 27)				
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		1,772,501	656,456	338,418
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest	14	19,280	2,243	(1,243)
Depreciation and amortization		243,656	157,809	146,327
Loss on disposals of property, plant and equipment ..		12,231	7,949	8,895
(Gain) / loss on investments		(165,174)	(12,136)	2,675
Deferred income tax benefit	16	(35,945)	(13,498)	(4,257)
Other movements		2,096	(19,342)	19,116
Changes in operating assets and liabilities				
Increase in accounts receivables		(158,628)	(86,853)	(25,098)
Increase in inventories		(132,375)	(71,038)	(5,646)
Decrease / (increase) in other current assets		331	328	(19,717)
Increase in loans provided by the subsidiary bank ...		(86,501)	(44,357)	(12,420)
Increase in accounts payable and other liabilities		146,731	86,360	43,524
Increase in current income tax payable		51,140	4,390	6,840
Net cash provided by operating activities		1,669,343	668,311	497,414
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired of \$38,109	21	(173,856)	—	—
Proceeds from sale of property, plant and equipment		8,352	15,677	846
Purchases and construction of property, plant and equipment		(269,459)	(239,279)	(153,632)
Loans given	6	—	—	(85,000)
Repayments of loans given	6	—	—	13,987
Proceeds from sale of investments		518,866	17,650	15,121
Purchase of investments		(185,594)	(187,590)	(7,106)
Movement of restricted cash		3,378	(15,589)	(6,015)
Net cash used in investing activities		(98,313)	(409,131)	(221,799)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		2,545	470	3,576
Repayment of borrowings and notes payable		(22,161)	(930)	(87,925)
Proceeds from issuance of additional stock in subsidiaries to minority stockholders		—	388	3,727
Capital lease payments		(40,818)	(6,648)	(565)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary, net of cash of \$1,070 received in transferred subsidiary	21	(635,383)	—	—
Payments to controlling shareholders for common control transfers of interests in existing subsidiaries	24	(2,617)	—	—
Repayment of loan by controlling shareholders	24	—	71,415	—
Proceeds from controlling shareholders for sale of investments	24	5,554	38,104	—
Dividends to shareholders		(332,817)	(61,675)	—
Net cash provided by / (used in) financing activities		(1,025,697)	41,124	(81,187)
Net increase in cash and cash equivalents		545,333	300,304	194,428
Effect of exchange rate changes on cash and cash equivalents		73,641	46,380	—
Cash and cash equivalents at the beginning of the year ...	4	729,641	382,957	188,529
Cash and cash equivalents at the end of the year	4	1,348,615	729,641	382,957

The accompanying notes constitute an integral part of these consolidated financial statements

OJSC NLMK
Consolidated statements of cash flows
for the years ended December 31, 2004, 2003 and 2002
(thousands of US dollars)

	<u>Note</u>	<u>For the year ended December 31, 2004</u>	<u>For the year ended December 31, 2003</u>	<u>For the year ended December 31, 2002</u>
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		479,732	190,810	107,667
Interest		12,002	7,369	3,025
Non cash operating activities:				
Offset of income tax payable with VAT receivable		76,251	41,333	18,820
Non cash investing activities:				
Capital lease liabilities incurred	18	19,920	17,059	4,760
Reclassification of restricted cash to long-term investments	5	15,000	—	—
Non cash investing and financing activities as a result of:				
Transfers of subsidiary interests from common control parties reflected as capital contribution, net of cash received of \$1,070	21	597,665	—	—
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of \$38,109 in OJSC TMTP and its subsidiaries	21	173,856	—	—

The accompanying notes constitute an integral part of these consolidated financial statements

OJSC NLMK
**Consolidated statements of stockholders' equity and comprehensive income
for the years ended December 31, 2004, 2003 and 2002**
(thousands of US dollars)

	Note	Common stock	Statutory reserve	Preferred stock	Additional paid-in capital	Other comprehensive income	Retained earnings	Total stockholders' equity
Balance at December 31, 2001		<u>14,435</u>	<u>32</u>	<u>5</u>	<u>680</u>	<u>2,986</u>	<u>1,633,885</u>	<u>1,652,023</u>
Net income		—	—	—	—	—	338,418	338,418
Conversion of preferred shares into ordinary shares		5	—	(5)	—	—	—	—
Other comprehensive income:								
Net unrealized gain on a change in valuation of investments		—	—	—	—	737	—	737
Balance at December 31, 2002 (See Note 27)		<u>14,440</u>	<u>32</u>	<u>—</u>	<u>680</u>	<u>3,723</u>	<u>1,972,303</u>	<u>1,991,178</u>
Net income		—	—	—	—	—	656,456	656,456
Dividends to shareholders ...	15	—	—	—	—	—	(61,675)	(61,675)
Other comprehensive income:								
Net unrealized loss on a change in valuation of investments		—	—	—	—	(2,390)	—	(2,390)
Deferred income tax liability effect	2(b)	—	—	—	—	(145,133)	—	(145,133)
Cumulative translation adjustment	2(b)	—	—	—	—	171,472	—	171,472
Balance at December 31, 2003		<u>14,440</u>	<u>32</u>	<u>—</u>	<u>680</u>	<u>27,672</u>	<u>2,567,084</u>	<u>2,609,908</u>
Net income		—	—	—	—	—	1,772,501	1,772,501
Stock split	15	206,733	—	—	—	—	(206,733)	—
Increase in statutory reserve	15	—	10,235	—	—	—	(10,235)	—
Dividends to shareholders ...	15	—	—	—	—	—	(338,915)	(338,915)
Transfers of subsidiary interests from controlling shareholders	21	—	—	—	—	—	598,735	598,735
Payments to controlling shareholders for common control transfer of subsidiary interests	21	—	—	—	—	—	(636,453)	(636,453)
Other comprehensive income:								
Net unrealized gain on a change in valuation of investments		—	—	—	—	66	—	66
Cumulative translation adjustment	2(b)	—	—	—	—	214,649	—	214,649
Balance at December 31, 2004		<u>221,173</u>	<u>10,267</u>	<u>—</u>	<u>680</u>	<u>242,387</u>	<u>3,745,984</u>	<u>4,220,491</u>

The accompanying notes constitute an integral part of these consolidated financial statements

OJSC NLMK

Notes to the consolidated financial statements as at and for the years ended December 31, 2004, 2003 and 2002 (thousands of US dollars)

1 BACKGROUND

Open joint stock company Novolipetsk Steel (the “Parent Company”) and its subsidiaries (together—the “Group”) is one of the largest iron and steel holdings in the Russian Federation with facilities that allow the Group to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent Company’s name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group’s principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings. These products are sold both in the Russian Federation and abroad. The Group also operates in the mining and has relatively insignificant interests in the financial and seaport segments (Note 22).

The Group’s main operations are in the Lipetsk region of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the Lipetsk regional authorities.

The Group’s primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, comprise:

- Mining companies OJSC Stoilensky GOK (acquired in 2004), OJSC Combinat KMAruda, OJSC StAGDoK and OJSC Dolomite. The principal activity of these companies is mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Transport company OJSC Tuapse Trade Seaport (“OJSC TMTP”) and its subsidiaries (acquired in 2004). The principal business activity of OJSC TMTP is cargo loading and unloading, transshipment of cargo to sea transport and vice versa.
- Trading companies LLC Stahl, LLC Vimet, LLC Larmer and LLC Trading House NLMK. The principal activity of the trading companies is the purchase of raw materials for the Group’s metallurgical production and the sale of metal products.
- The commercial bank OJSC Lipetskcombank. The bank possesses a general banking license issued by the Central Bank of the Russian Federation, a license for foreign currency operations and a license for brokerage activity. The bank provides banking services to commercial and retail customers and other Group companies.
- The insurance company LLC LIS Chance and its subsidiaries. The principal business activities of these companies are corporate property insurance, voluntary medical insurance, vehicle insurance and public liability insurance to commercial and retail customers and other Group companies.

2 BASIS OF PREPARATION

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”).

(b) Functional and reporting currency

The accounting records of the Group are maintained in Russian rubles and the Parent Company prepares its statutory financial statements and reports in that currency to its stockholders in accordance with the laws of the Russian Federation.

The Group’s functional currency is considered to be the Russian ruble. The accompanying consolidated financial statements have been prepared using the US dollar as the Group’s reporting currency. The translation into US dollars has been performed in accordance with the provisions of SFAS No. 52, *Foreign Currency Translation*.

**Notes to the consolidated financial statements
as at and for the years ended December 31, 2004, 2003 and 2002**
(thousands of US dollars)

2 BASIS OF PREPARATION (continued)

Prior to January 1, 2003, the Russian economy was considered hyperinflationary. In accordance with SFAS No. 52's requirements applicable to hyperinflationary market economies, monetary assets and liabilities originally denominated in US dollars were stated at their original US dollars amounts. Monetary assets and liabilities denominated in other currencies were translated into US dollars using the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities, which were denominated in currencies other than US dollars, were translated into US dollars at the exchange rates in effect as at the date of the transaction. Income and expenses, which were earned or incurred in currencies other than US dollars, were translated into US dollars using a basis that approximates the rate of exchange ruling at the date of the transaction. Gains and losses arising from the translation of assets and liabilities into US dollars were reflected in the consolidated statement of income as foreign currency exchange gains and losses.

The Russian economy ceased to be considered hyperinflationary as of January 1, 2003. At January 1, 2003, the monetary and non-monetary assets and liabilities of the Group as well as the related stockholders' equity balance were translated into Russian rubles at the current exchange rate prevailing at January 1, 2003. This translation established a new functional currency basis for the Group. For periods subsequent to January 1, 2003, the functional currency of the consolidated financial statements (Russian rubles) are translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52. As a result of these translation procedures, a cumulative translation adjustment of \$214,649 and \$171,472 as at December 31, 2004 and 2003, respectively, which accounts for such translation gains and losses, recorded directly in stockholders' equity. No cumulative translation adjustment was recorded for the period during which the Russian economy was considered hyperinflationary.

The deferred income tax effect of \$145,133 resulting from the change in functional currency was recorded directly in stockholders' equity as at January 1, 2003.

The Central Bank of the Russian Federation's closing rates of exchange at December 31, 2004, 2003 and 2002 were 1 US dollar to 27.7487, 29.4545 and 31.7844 Russian rubles, respectively. The annual weighted average exchange rates were 28.8150, 30.6877 and 31.3474 Russian rubles to 1 US dollar for the years ended December 31, 2004, 2003 and 2002, respectively.

(c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant intercompany accounts and transactions have been eliminated.

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 by the Group from one reporting period to another with the exception of newly adopted accounting pronouncements.

(a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; property, plant, and equipment valuation allowances; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks, bank deposits and other highly liquid short-term investments with original maturities of less than three months.

(c) Restricted cash

Restricted cash comprise funds legally or contractually restricted as to withdrawal.

(d) Accounts receivable

Receivables are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(e) Value added tax

Value added tax related to sales and services rendered is payable to the tax authorities upon the collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. VAT related to sales / purchases and services rendered / used which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where allowance has been made for doubtful debts, loss is recorded for the gross amount of the debtor, including VAT.

(f) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

The provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

(g) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities using three categories: trading, held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

Held-to-maturity securities

Held-to-maturity securities are those securities which the Group has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

Premiums and discounts are amortized and recorded in the consolidated statement of income over the life of the related security held-to-maturity, as an adjustment to yield using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale securities

All marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income in the stockholders' equity until realized. Realized gains and losses from the sale of available for sale securities, less tax, are determined on a specific identification basis. Dividend and interest income are recognized when earned.

(h) Investments in associates and non-marketable securities

Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future, or under bankruptcy proceedings.

(i) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses (Note 3(k)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Property, plant and equipment also includes assets under construction and plant and equipment awaiting installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases that meet the definition of capital leases under the requirements of SFAS No. 13, *Accounting for Leases*, are classified accordingly. Plant and equipment acquired by way of capital lease are stated at the lower of its fair value or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (Note 3(k)).

Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the consolidated statement of income as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalized interest

Interest is capitalized in connection with the construction of major production facilities. The capitalized interest is recorded as part of the asset to which it relates, and is depreciated over the asset's useful life.

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of SFAS No. 141, *Business Combinations*, at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by Emerging Issues Task Force on Issue No. 04-2, *Whether Mineral Rights Are Tangible or Intangible Assets*.

Depreciation

Depreciation is charged on a straight-line basis over the estimated useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated useful life of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of or land. The range of estimated useful lives is as follows:

Buildings and land and buildings improvements	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

Mineral rights are amortized using the straight-line basis over the license term given approximately even production during the period of license.

(j) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Group adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002. Under SFAS No. 142 goodwill and intangible assets with indefinite useful lives are no longer amortized as they were prior to 2002, but are instead subject to impairment test at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in impairment.

Under SFAS No. 142, goodwill is assessed for impairment by using the fair value based method. The group determines fair value by utilizing discounted cash flows. The impairment test required by SFAS No. 142 includes a two-step approach. Under the first step, companies must compare fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount, if any, that the reporting unit's goodwill carrying value exceeds its "implied" fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit (both recognized and unrecognized) from the fair value of the reporting unit (as determined in the first step).

The Group performs the required annual goodwill impairment test at the end of each calendar year.

The excess of the fair value of net assets acquired over purchase cost is determined as negative goodwill, and is allocated to the acquired non-current assets, except for deferred taxes, if any, until they are reduced to zero.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, mineral rights and purchased intangibles, 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 an 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 undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets held for sale that meet certain criteria are measured at the lower of their carrying amount or fair value less cost to sell.

(l) Pension and post retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation, which requires contributions to the Russian Federation Pension Fund by the employer calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Parent Company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund subsequently. As such, all these benefits are considered as made under a defined contribution plan and are charged to expense as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees of a number of the Group's companies on retirement depending on the employment period and the salary level of the individual employee. The scheme is considered as a defined benefit plan. The expected future obligations to the employees are assessed by the Group's management and accrued in the consolidated financial statements, however these are not material.

(m) Asset retirement obligations

In July 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement provides accounting and reporting standards for costs associated with the retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is measured on the basis of its present value for each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

The Group's land, buildings and equipment are subject to the provisions of this statement. Based on the current requirements under the laws of the Russian Federation and various contractual agreements associated with these assets, the Group has no material commitments related to the retirement of its long-lived assets.

(n) Long-term borrowings

Long-term borrowings are recognized initially at cost. Subsequent to the initial recognition, long-term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of income over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount received and the carrying amount is recognized immediately in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

(p) 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 temporary 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 be applied 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 when a different tax rate is enacted.

Pursuant to the provisions of SFAS No. 109, *Accounting For Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Prior to January 1, 2003, when Russia was deemed to be hyperinflationary and as a result of remeasuring its financial statements the Group did not recognize deferred tax liabilities or assets for those differences relating to assets and liabilities that, under SFAS No. 52, are re-measured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates and indexing for tax purposes. This treatment was in accordance with the requirements of SFAS No. 109.

The deferred tax effect associated with the temporary differences that arose from the change in the functional currency of the Group (from the US dollar to the Russian ruble) when Russia ceased to be considered highly inflationary on January 1, 2003, was reflected as an adjustment to the cumulative translation adjustment component of accumulated other comprehensive income on January 1, 2003.

(q) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(r) Revenue recognition

Goods sold

Revenue from the sale of goods is recognized in the consolidated statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectibility is reasonably assured.

Interest income

Interest income is recognized in the consolidated statement of income as it is earned.

(s) Expenses

Operating lease payments

Operating leases are recognized as an expense in the consolidated statement of income as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and capitalized (Note 3(i)).

(t) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalent is defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognized as non-cash transactions.

(u) Recent accounting pronouncements

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. The interpretation requires entities to record a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The term “conditional asset retirement obligation” refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation shall be effective no later than December 31, 2005 and early adoption is encouraged. The Group believes that the adoption of this interpretation in 2005 will not have a material impact on its consolidated financial statements.

Consolidation of variable interest entities

In December 2003, the FASB issued Interpretation No. 46R, *Consolidation of Variable Interest Entities*, which revised Interpretation No. 46, issued in January 2003. The Interpretation addresses the consolidation of business enterprises (variable interest entities) to which the usual condition of consolidation (ownership of a majority voting interest) does not apply. This Interpretation focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests, a company’s exposure (variable interest) to the economic risks and potential rewards from the variable interest entity’s assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains and losses from changes in the value of the variable interest entity’s assets and liabilities.

Variable interests may arise from financial instruments, service contracts and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements.

The Group adopted the Interpretation in 2004. The adoption of FIN 46R had no material impact on the Group’s consolidated financial statements.

(v) Segment reporting

According to SFAS 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’s organization comprises two reportable segments:

- Steel segment, comprising production and sales of steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings,
- Mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties,

and other segments, not reported separately in the consolidated financial statements.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

(w) Reclassifications

Certain amounts in previously issued consolidated financial statements have been reclassified to conform to the current period presentation.

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002 (See Note 27)
Cash—Russian rubles	269,860	26,927	38,056
Cash—foreign currency	2,437	164,659	841
Deposits—Russian rubles	39,822	98,457	13,552
Deposits—US dollars	709,457	435,601	128,500
Deposits—Euro	310,782	3,000	—
Cash in trust—foreign currency	—	—	197,900
Other cash equivalents	16,257	997	4,108
	<u>1,348,615</u>	<u>729,641</u>	<u>382,957</u>

Other cash equivalents as at December 31, 2004 include a deposit of \$16,217 made as a mandatory condition of participation in a privatization tender and recovered by the Group on the completion of the tender in February 2005.

Cash in trust as at December 31, 2002 represents cash transferred by the Group in 2002 into a cash management account in a Russian bank with foreign shareholders. This cash was available at the Group's call.

Long-term irrevocable letters of credit in the amount of \$16,642 and \$51,747 as at December 31, 2004 and 2003, respectively, issued for the construction and acquisition of property, plant and equipment, were included in non-current assets and classified as advances for construction and acquisition of property, plant and equipment (Note 10).

5 RESTRICTED CASH

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002 (See Note 27)
Obligatory cash reserves	5,094	8,104	7,515
Long-term bank deposit	—	15,000	—
	<u>5,094</u>	<u>23,104</u>	<u>7,515</u>

Restricted cash balances as at December 31, 2004, 2003 and 2002 include obligatory cash reserves, placed with the Central Bank of the Russian Federation by the subsidiary bank in accordance with statutory requirements applicable to credit institutions.

Restricted cash balance as at December 31, 2003 includes a US dollar denominated 6.5% bank deposit with a maturity date of October 2006. The Group pledged this deposit as a guarantee for a related party obligation to a third party (Note 24). In 2004 the contract of pledge was discontinued due to the termination of the underlying obligation. The deposit was recorded within long-term investments as at December 31, 2004 (Note 6(f)).

OJSC NLMK

Notes to the consolidated financial statements as at and for the years ended December 31, 2004, 2003 and 2002 (thousands of US dollars)

6 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Short-term investments and current portion of long-term investments	21,153	180,797	44,487
Long-term investments	51,425	39,925	71,164
Total investments	<u>72,578</u>	<u>220,722</u>	<u>115,651</u>

(a) Trading securities

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002 (See Note 27)
Investments in shares	—	158,280	—
Corporate bonds	—	3,378	—
Eurobonds	—	9,630	—
Other	1,469	1,146	1,232
	<u>1,469</u>	<u>172,434</u>	<u>1,232</u>

Investments in shares are represented by the securities of companies which are listed on the Russian Trade System.

The income generated from trading securities for the years ended December 31, 2004, 2003 and 2002 amounts to \$162,874, \$8,436 and nil, respectively. The Group's return on such investments is affected by the operating environment of the Group (Note 23(a)).

(b) Available-for-sale securities

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Russian government and other bonds with annual coupon rates ranging from 3% to 9.4%			
Acquisition cost	2,216	905	921
Gross unrealized gains	1,784	1,718	3,723
Deposit certificates with interest rates ranging from 5.2% p.a. to 20% p.a.	35,817	29,304	6,844
Fair value	<u>39,817</u>	<u>31,927</u>	<u>11,488</u>

The maturities of debt securities classified as available-for-sale as at December 31, 2004, 2003 and 2002 are presented below.

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Due within one year	19,684	8,363	5,151
Due in one to five years	18,619	20,898	4,018
Due after five years	1,514	2,666	2,319
	<u>39,817</u>	<u>31,927</u>	<u>11,488</u>

Russian Government bonds with a face value of \$2,908, \$2,908 and \$3,180 as at December 31, 2004, 2003 and 2002, respectively, are pledged to secure the redemption of the Parent Company's promissory notes issued in 2000. These promissory notes are denominated in Russian rubles and mature in 2008.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

6 INVESTMENTS (continued)

(c) Investments in associates

	As at December 31, 2004 Ownership	As at December 31, 2003 Ownership	As at December 31, 2002 Ownership	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
CJSC Korpus	—	40.00%	40.00%	—	3,232	3,042
CJSC Stalconverst	—	36.80%	36.80%	—	2,130	1,974
OJSC AKB Lipetskcredit	—	22.19%	22.19%	—	1,116	1,034
OJSC Avron	—	26.70%	26.70%	—	406	376
OJSC Lipetsky Giprometz	43.44%	43.44%	43.44%	8	8	7
				8	6,892	6,433
Provision for other than temporary diminution in value				—	(3,652)	(3,384)
				<u>8</u>	<u>3,240</u>	<u>3,049</u>

During the year ended December 31, 2004 the Group sold its share in CJSC Korpus to a related party for the consideration of \$3,124 (Note 24).

During the year ended December 31, 2004 the Group's associates CJSC Stalconverst, OJSC AKB Lipetskcredit and OJSC Avron were recognized as bankrupts and liquidated. The Group's investments in these associates were fully provided at December 31, 2003 and 2002.

(d) Non-marketable securities

	As at December 31, 2004 Ownership	As at December 31, 2003 Ownership	As at December 31, 2002 Ownership	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Non-marketable securities, net of current portion:						
OJSC Lebedinsky GOK	11.96%	11.96%	11.96%	9,808	9,240	8,546
OJSC Yakovlevsky rudnik	—	9.48%	9.48%	—	5,797	5,372
OJSC Lipetskenergo	14.11%	12.21%	12.21%	3,388	2,268	2,102
OJSC Lipetskoblغاز	19.40%	19.40%	19.40%	738	695	644
OJSC Almetievsky Pipe Plant	—	14.53%	14.53%	—	557	516
OJSC Moscow Pipe Plant Filit	—	12.00%	12.00%	—	423	392
Other	—	—	—	1,686	708	1,659
				15,620	19,688	19,231
Provision for other than temporary diminution in value				(336)	(6,567)	(6,144)
				<u>15,284</u>	<u>13,121</u>	<u>13,087</u>
Current portion of non-marketable securities:						
OJSC Coal Mining Company						
Kuzbassugol	—	—	17.70%	—	—	39,787
Provision for other than temporary diminution in value				—	—	(1,683)
				—	—	<u>38,104</u>
Total non-marketable securities				<u>15,284</u>	<u>13,121</u>	<u>51,191</u>

During the year ended December 31, 2003 the Group sold its share in OJSC Coal Mining Company Kuzbassugol for the consideration of \$38,104 to a related party. During the year ended December 31, 2004 the

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

6 INVESTMENTS (continued)

Group sold its share in OJSC Moscow Pipe Plant Filit and OJSC Almetievsky Pipe Plant to related parties for the consideration of \$466 and \$1,301, respectively. In 2004 the Group also sold its investments in other non-marketable securities for the total consideration of \$663 to related parties (Note 24).

In 2004 the Group acquired 1.9% of OJSC Lipetskenergo from a related party for the consideration of \$944 (Note 24).

During the year ended December 31, 2004 OJSC Yakovlevsky rudnik was recognized as a bankrupt and liquidated. The respective Group's investment was fully provided at December 31, 2003 and 2002.

(e) Loans given

The balance of the long-term loan of \$48,691 as at December 31, 2002 represented the amortized cost of a Russian ruble denominated interest free loan originally payable before December 31, 2004. The loan was provided to the third party for the acquisition of shares of the Parent Company.

At the date of issue the long-term loan of \$85,000 was accounted for at its fair value. The fair value of the loan was calculated based on an annual commercial interest rate of 19% at the date of issue and an assumption that the loan will be repaid at the end of 2004.

The difference between the face value of the loan and its fair value of \$56,348 in the amount of \$28,652 (representing interest income to be recognized in future periods) and current period interest income of \$8,108 were recognized in the consolidated statement of income for the year ended December 31, 2002. In 2002, a portion of the loan of \$13,987 was repaid.

In 2002 the borrower became a minority shareholder of the Parent Company. In 2003 the borrower was acquired by the controlling shareholders of the Parent Company and the loan was fully repaid. A gain on the early repayment of the loan in the amount of \$20,984 was recognized in the consolidated statement of income for the year ended December 31, 2003.

(f) Long-term bank deposits

Long-term bank deposits amounted to \$16,000 as at December 31, 2004. The long-term bank deposit of \$15,000 was recorded within restricted cash as at December 31, 2003 (Note 5). There were no long-term bank deposits as at December 31, 2002.

7 ACCOUNTS RECEIVABLE

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002 (See Note 27)
Trade accounts receivable	357,948	245,404	165,293
Advances given to suppliers	57,260	23,834	15,225
Taxes receivable	157,736	95,634	74,825
Accounts receivable from employees	1,192	896	968
Other accounts receivable	22,765	18,556	16,377
	<u>596,901</u>	<u>384,324</u>	<u>272,688</u>
Allowance for doubtful debts	<u>(8,339)</u>	<u>(6,578)</u>	<u>(6,489)</u>
	<u>588,562</u>	<u>377,746</u>	<u>266,199</u>

As at December 31, 2004, 2003 and 2002, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK), each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled \$140,265 and \$102,908 at December 31, 2004, \$121,658 and \$87,272 at December 31, 2003 and \$47,093 and \$54,290 at December 31, 2002, respectively.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

7 ACCOUNTS RECEIVABLE (continued)

In addition, accounts receivable from Moorfield Commodities Company, UK, at December 31, 2004 and 2002 exceeded 10% of the gross trade accounts receivable balances and totaled \$50,342 and \$28,590, respectively. At December 31, 2003, accounts receivable from this company did not exceed 10% of the gross trade accounts receivable balance.

8 INVENTORIES

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002 (See Note 27)
Raw materials	333,414	201,610	130,735
Work in process	102,692	64,326	54,475
Finished goods and goods for resale	47,054	37,813	26,564
	483,160	303,749	211,774
Provision for obsolescence	(7,857)	(2,446)	(1,146)
	<u>475,303</u>	<u>301,303</u>	<u>210,628</u>

9 OTHER CURRENT AND NON-CURRENT ASSETS

	As at December 31, 2004	As at December 31, 2003
Other current assets		
Short-term loans provided by OJSC Lipetskcombank	131,267	53,904
Other current assets	20,047	12,781
	151,314	66,685
Allowance for doubtful loans	(2,566)	(3,349)
Total other current assets	<u>148,748</u>	<u>63,336</u>
Other non-current assets		
Long-term loans provided by OJSC Lipetskcombank	37,500	21,851
Other non-current assets	30,484	14,983
Total other non-current assets	<u>67,984</u>	<u>36,834</u>

The loans are provided to customers and other banks by the subsidiary bank of the Group. The interest rates on outstanding loans as at December 31, 2004 range from 10% p.a. to 23% p.a. for loans denominated in Russian rubles and from 9% p.a. to 16% p.a. for foreign currency loans. A disclosure of other current and non-current assets as at December 31, 2002 is set out in Note 27.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

10 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Land	46,466	35,442	32,844
Mineral rights	500,996	—	—
Buildings	715,759	550,005	507,486
Land and buildings improvements	798,892	686,332	633,344
Machinery and equipment	4,320,088	3,831,976	3,485,774
Vehicles	205,297	105,027	99,531
Construction in progress and advances for construction and acquisition of property, plant and equipment	254,271	270,574	168,717
Leased assets	862	21,819	4,760
Other	38,787	7,011	6,099
	<u>6,881,418</u>	<u>5,508,186</u>	<u>4,938,555</u>
Accumulated depreciation	<u>(4,623,790)</u>	<u>(4,175,607)</u>	<u>(3,770,841)</u>
Net book value	<u>2,257,628</u>	<u>1,332,579</u>	<u>1,167,714</u>

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as of January 1, 2000. As at December 31, 2004 and 2003, the net book value of these items amounted to 28% and 49% of total net book value of property, plant and equipment, respectively.

Construction in progress as at December 31, 2004 and 2003 includes long-term irrevocable letters of credit issued for acquisition and construction of property, plant and equipment, amounting to \$16,642 and \$51,747, respectively.

The Group acquired all of its mineral rights through a business combination (Note 21) at the date of which acquired company was in the production stage. The Group's mineral rights expire in 2015 and management believes that it will be extended at the initiative of the Group.

11 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

	<u>Goodwill</u>
Balance as at January 1, 2004	—
Acquired in new subsidiaries (Note 21)	173,677
Cumulative translation adjustment (Note 2(b))	6,138
Balance as at December 31, 2004	<u>179,815</u>

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition of a controlling interest in OJSC Stoilensky GOK amounted to \$95,501 was allocated to the mining segment. Goodwill related to the acquisition of OJSC TMTP and its subsidiaries of \$78,176 was allocated to other non-reportable segments (Note 21).

Negative goodwill of \$110,837 generated on acquisitions of minority interest in OJSC Stoilensky GOK was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

The Group performed a test for impairment of goodwill at December 31, 2004 which indicated no impairment at that date.

OJSC NLMK**Notes to the consolidated financial statements****as at and for the years ended December 31, 2004, 2003 and 2002***(thousands of US dollars)***11 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)****(b) Other intangible assets**

	<u>Total useful life, months</u>	<u>Gross book value as at December 31, 2004</u>	<u>Accumulated amortization as at December 31, 2004</u>
Customers relationships OJSC TMTP (oil)	66	11,270	(1,025)
Customers relationships OJSC TMTP (dry cargo)	66	12,484	(1,135)
Total intangible assets		23,754	(2,160)

The intangible assets were acquired in a business combination (Note 21) and met the criteria for separate recognition outlined in SFAS No. 141. They were recorded under provisions of SFAS No. 141 at fair values at the date of acquisition, based on their appraised fair value.

	<u>Amortization expense</u>
Aggregate amortization expense	
For the year ended December 31, 2004	(2,080)
Estimated amortization expense	
For the year ended December 31, 2005	(4,159)
For the year ended December 31, 2006	(4,159)
For the year ended December 31, 2007	(4,159)
For the year ended December 31, 2008	(4,159)
For the year ended December 31, 2009	(4,159)

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<u>As at December 31, 2004</u>	<u>As at December 31, 2003</u>	<u>As at December 31, 2002</u> (See Note 27)
Trade accounts payable	78,651	65,606	36,727
Advances received	127,776	81,447	52,917
Customers' deposits and accounts in the subsidiary bank	156,176	55,704	16,912
Taxes payable other than income tax	19,044	6,166	15,933
Accounts payable and accrued liabilities to employees ..	51,628	33,356	20,933
Dividends payable	6,332	—	—
Notes payable	5,312	2,803	3,346
Other accounts payable	10,123	6,605	7,337
	455,042	251,687	154,105

13 OTHER LONG-TERM LIABILITIES

	<u>As at December 31, 2004</u>	<u>As at December 31, 2003</u>
Customers' deposits in the subsidiary bank	16,150	4,855
Notes payable	3,796	1,738
	19,946	6,593

A disclosure of other long-term liabilities as at December 31, 2002 is set out in Note 27.

OJSC NLMK

Notes to the consolidated financial statements as at and for the years ended December 31, 2004, 2003 and 2002 (thousands of US dollars)

14 MINORITY INTEREST

Balance as at December 31, 2002	12,891
Minority's share in subsidiaries' income from continuing operations	2,243
Issuance of additional stock by subsidiaries to minority stockholders	388
Cumulative translation adjustment (Note 2(b))	1,130
Balance as at December 31, 2003	16,652
Minority's share in subsidiaries' income from continuing operations	19,280
Acquisitions of new subsidiaries (Note 21)	49,147
Purchase of the minority interest in existing subsidiaries	(2,289)
Cumulative translation adjustment (Note 2(b))	2,997
Balance as at December 31, 2004	85,787

Movements in minority interest for the year ended December 31, 2002 are set out in Note 27.

15 STOCKHOLDERS' EQUITY

(a) Stock

In May 2004, the Parent Company made a stock split through an additional issue of 5,987,240,000 common stock with a par value of 1 Russian ruble each. These shares were distributed to all existing shareholders of the Parent Company in proportion to their interest held at the date of additional shares distribution. One share held makes the shareholder eligible to 1,000 additional shares. In accordance with legal requirements stock split was followed by the transfer from cumulative retained earnings to capital stock at par value totaling to \$206,733.

As at December 31, 2004, 2003 and 2002, the Parent Company's share capital consisted of 5,993,227,240, 5,987,240 and 5,987,240 issued common shares (5,993,227,240 at all the dates given the retrospective effect of the stock split), respectively, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the annual stockholders' meeting.

In August 2004, the Group increased the statutory reserve of the Parent Company up to the amount of \$10,267 following the change in common stock value.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at the annual Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. At December 31, 2004, 2003 and 2002 the retained earnings of the Parent Company, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to \$3,411,114, \$1,855,959 and \$1,078,193, respectively, converted into US dollars using exchange rate at December 31, 2004, 2003 and 2002, respectively.

The dividend policy, which was approved by the General Shareholders' Meeting on June 25, 2004, provides for a minimum annual dividend payment of at least 15% of annual net income and sets an objective of making dividend payments of 25% of annual net income, as determined in accordance with US GAAP.

In December 2004 the Parent Company declared interim dividends for the nine months ended September 30, 2004 of 1 Russian ruble per share for the total of \$214,081. Dividends payable amount to \$6,332 at December 31, 2004 (Note 12). In 2004 and 2003 the Parent Company declared dividends of 0.6 and 312.5 Russian rubles per share based on the results of 2003 and 2002, respectively, for a total of \$124,834 and \$61,675. At the dates dividends were declared, owners of 5,993,227,240, 5,993,227,240 and 5,987,240 shares were eligible to receive dividends for the nine months ended September 30, 2004, year 2003 and year 2002, respectively (Note 15(a)). No dividends on common stock were declared or paid in 2002.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

16 INCOME TAX

	For the year ended December 31, 2004	For the year ended December 31, 2003	For the year ended December 31, 2002
Current tax expense	608,166	236,533	133,956
Deferred tax benefit:			
origination and reversal of temporary differences . . .	(35,945)	(13,498)	(8,271)
foreign exchange differences	—	—	(976)
change in tax loss carry forwards	—	—	4,990
	<u>(35,945)</u>	<u>(13,498)</u>	<u>(4,257)</u>
Total income tax expense	<u>572,221</u>	<u>223,035</u>	<u>129,699</u>

The corporate income tax rate in Russia applicable to the Group was 24% in 2004, 2003 and 2002.

Income before income tax is reconciled to the income tax expense as follows:

	For the year ended December 31, 2004	For the year ended December 31, 2003	For the year ended December 31, 2002
Income before tax	2,364,002	881,734	466,874
Income tax at applicable tax rate	567,360	211,616	112,050
Increase in income tax resulting from:			
Non-deductible expenses	4,861	11,419	17,649
Total income tax expense	<u>572,221</u>	<u>223,035</u>	<u>129,699</u>

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
<i>Deferred tax assets</i>			
Accounts payable and other liabilities	6,948	8,659	3,158
Non-current liabilities	222	2,455	541
Accounts receivable	1,129	1,572	2,573
Investments	—	—	5,332
Allowance	(28)	—	(1 827)
	<u>8,271</u>	<u>12,686</u>	<u>9,777</u>
<i>Deferred tax liabilities</i>			
Property, plant and equipment	(302,529)	(160,021)	(18,602)
Intangible assets	(5,183)	—	—
Inventories	(6,031)	(11,145)	(6,698)
Other	—	(1,236)	—
	<u>(313,743)</u>	<u>(172,402)</u>	<u>(25,300)</u>
Total deferred tax liability	<u>(305,472)</u>	<u>(159,716)</u>	<u>(15,523)</u>

Deferred tax assets have not been recognized in respect of the temporary differences, where it is not probable that future taxable profit will be available and therefore realization of these tax assets is doubtful.

The deferred tax effect of establishing a new functional currency basis at January 1, 2003 (Note 2(b)) was recorded within the cumulative translation adjustment directly in other comprehensive income within stockholders' equity.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

16 INCOME TAX (continued)

At December 31, 2004, \$155,663 of the deferred tax liability on property, plant and equipment totalling \$302,529 relate to differences between the US GAAP and tax carrying values of property, plant and equipment of the acquired subsidiaries. As noted in Note 21(c), the US GAAP carrying value was recorded at fair value on acquisition.

17 EARNINGS PER SHARE

	Year ended December 31, 2004	Year ended December 31, 2003
Average number of shares		
before restatement	3,948,404,836	5,987,240
after restatement	5,993,227,240	5,993,227,240
Net income	1,772,501	656,456
Basic and diluted net income per share (US dollars)	0.2958	0.1095

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period, after giving retroactive effect to any stock splits.

In May 2004, the Parent Company made a stock split through an additional issue of 5,987,240,000 common stock with a par value of 1 Russian ruble each (Note 15(a)). Earnings per share data for 2004, 2003 and 2002 (Note 27) have been restated to reflect this share distribution.

The average shares outstanding for purposes of basic and diluted earnings per share information were 5,993,227,240 for the years ended December 31, 2004 and 2003. Basic and diluted net income per share information for the year ended December 31, 2002 is set out in Note 27.

The Parent Company does not have potentially dilutive shares outstanding.

18 NON-CASH TRANSACTIONS

Approximately \$4,400 and \$3,000 of the Group's 2004 and 2003 revenues, respectively, were settled in the form of mutual offset against the liability to pay for raw materials supplied. Disclosure of such non-cash transactions for 2002 is set out in Note 27.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

In 2004, 2003 and 2002, the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2004, 2003 and 2002, was \$19,920, \$17,059 and \$4,760, respectively. In 2004, the majority of capital lease liabilities were settled (Note 20).

In 2004, the Group acquired assets and liabilities as a result of acquisitions of new subsidiaries (Note 21).

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

Management believes, that the carrying amounts of financial assets and liabilities approximate to a reasonable estimate of their fair value.

The fair values of available-for-sale securities are based on quoted market prices for these or similar instruments.

OJSC NLMK

Notes to the consolidated financial statements as at and for the years ended December 31, 2004, 2003 and 2002 (thousands of US dollars)

20 CAPITAL AND OPERATIONAL LEASES

At December 31, 2004, 2003 and 2002, net book value of the machinery, equipment and vehicles held under the capital lease arrangements with a related party was:

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Machinery and equipment	198	4,620	1,858
Vehicles	664	17,199	2,902
	862	21,819	4,760
Accumulated depreciation	(87)	(1,067)	(160)
Net value of property, plant and equipment obtained under capital lease arrangements	<u>775</u>	<u>20,752</u>	<u>4,600</u>

In September 2004, the Group cancelled the majority of its capital lease arrangements and bought out leased assets. The capital lease liability in the amount of \$30,625 at the date of cancellation was settled. The difference of \$6,656 between the carrying amount of the capital lease liability settled and purchase price was accounted as an adjustment of the carrying value of the assets. At the date of these consolidated financial statements, the capital lease arrangements with the related party were cancelled.

The discount rates used for the calculation of the present value of net minimum lease payments was 14%, 14% and 19% for assets received in 2004, 2003 and 2002, respectively. Capital lease charges of \$3,155, \$3,405 and \$909 were recorded in the consolidated statements of income for the years ended December 31, 2004, 2003 and 2002, respectively.

The Group incurred expenses in respect of operational leases of \$6,595 and \$5,584 in 2004 and 2003, respectively. Disclosure of such operating lease expenses for 2002 is set out in Note 27.

21 BUSINESS COMBINATIONS

(a) OJSC Stoilensky GOK

In March 2004 the companies under common control of the controlling shareholders of the Parent Company ("the Companies under common control") transferred to the Parent Company 59.8% and in November 2004—31.1% of the outstanding common shares of OJSC Stoilensky GOK. In these consolidated financial statements, the Group accounted for these transfers retrospectively, in a manner similar to pooling by reflecting the controlling shareholders' book value of their acquisition cost in such transfers of \$598,735 as capital contributions. The Group transferred cash consideration to such control parties of \$636,453 which is reflected as distributions to controlling shareholders.

A part of the primary acquisition cost in the amount of \$60,761 represents transaction related fees paid for by the Companies under common control. The acquisition agreements contain no material future contingent payments or commitments. The acquisitions resulted in the Group's ownership of 91.4% of the voting shares of the company. Prior to March 2004 the Group's 0.5% interest in OJSC Stoilensky GOK was accounted for at cost.

This transaction was consummated to acquire one of the largest iron-ore concentrate and agglomerated ore producers in Russia in order to secure long-term supplies of raw materials for the Group.

The acquisition of OJSC Stoilensky GOK by the control party was accounted for using the purchase method of accounting. The entity was consolidated by the Group for the first time as at the effective date of obtaining control by the control party which management considers to be March 31, 2004. The results of operations of the acquired entity were included in the consolidated statement of income starting from April 1, 2004.

In October and November 2004 the Group acquired, at an auction for sale of a state-owned shareholding and from other minority shareholders, an additional 5.6% of the common stock of OJSC Stoilensky GOK for a consideration of \$22,793 paid in cash.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

21 BUSINESS COMBINATIONS (continued)

The Group generated positive goodwill of \$95,501 on acquisition of the controlling stock (59.8%) and negative goodwill \$110,837 on subsequent acquisitions. Negative goodwill was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

(b) OJSC TMTP

In June 2004, the Group acquired 69.4% of the common stock of OJSC TMTP for a consideration of \$189,172 paid in cash to unrelated parties. The Group also obtained control over its subsidiaries OJSC Tuapse Dockyard, OJSC Tuapsegrazhdanstroï, LLC Nafta-T and LLC Karavella. The agreement contains no future contingent payments or commitments.

This transaction was consummated to provide smooth transportation of the Group's products within the respective area of export sales.

The acquisition of OJSC TMTP and its subsidiaries was accounted for using the purchase method of accounting. OJSC TMTP and its subsidiaries were consolidated for the first time as of the effective date of obtaining control which management considers to be June 30, 2004. The results of operations of the acquired entities were included in the consolidated statement of income starting from July 1, 2004.

(c) Fair values of the assets acquired and liabilities assumed

The following table summarizes the fair values of the assets acquired and liabilities assumed in the business combinations, determined in accordance with SFAS No. 141 provisions. The fair values of property, plant and equipment, including mineral extraction rights, and intangible assets were established by independent appraisers:

	OJSC Stoilensky GOK	OJSC TMTP and its subsidiaries	Total acquisitions
Current assets	29,197	56,270	85,467
Mineral rights	486,880	—	486,880
Other property, plant and equipment	223,307	95,545	318,852
Intangible assets	—	22,712	22,712
Other non-current assets	616	1,000	1,616
Goodwill (Note 11(a))	95,501	78,176	173,677
Total assets acquired	835,501	253,703	1,089,204
Current liabilities	(49,577)	(5,969)	(55,546)
Non-current liabilities	(4,139)	(1,208)	(5,347)
Deferred income tax liability	(154,280)	(14,184)	(168,464)
Total liabilities assumed	(207,996)	(21,361)	(229,357)
Minority interest	(5,977)	(43,170)	(49,147)
Fair value of net assets acquired	621,528	189,172	810,700
Less: cash acquired	(1,070)	(38,109)	(39,179)
Fair value of net assets acquired, net of cash acquired	620,458	151,063	771,521
Transfers of subsidiary interests from common control parties reflected as capital contribution, net of cash received of \$1,070	597,665	—	597,665
Fair value of net assets acquired from third parties, net of cash acquired of \$38,109 at OJSC TMTP and its subsidiaries	22,793	151,063	173,856
Fair value of net assets acquired, net of cash acquired	620,458	151,063	771,521

OJSC NLMK

Notes to the consolidated financial statements as at and for the years ended December 31, 2004, 2003 and 2002 (thousands of US dollars)

21 BUSINESS COMBINATIONS (continued)

The transfers of subsidiary interests were recorded in the statement of stockholders' equity as capital contributions of \$598,735, comprising \$597,665 of non-cash contributions and \$1,070 of cash owned by the subsidiary at the dates of contributions. The payments to the common control parties for the transfer of the shares in OJSC Stoilensky GOK of \$636,453 were recorded as a reduction in stockholders' equity.

(d) Other acquisitions

In the second half of 2004 the Group made a number of immaterial acquisitions of stock in other Group's subsidiaries and an immaterial acquisition of the controlling stock in LLC Independent Transport Company from related parties for the total consideration of \$2,617 (Note 24).

(e) Pro forma financial statements

The following unaudited pro forma statements of income are presented relating to the acquisitions by the Group of OJSC Stoilensky GOK and OJSC TMTP and its subsidiaries (together—"TMTP Group") in the transactions accounted for as purchases. The unaudited pro forma statements of income are based on the consolidated statements of income of the Group and TMTP Group and individual statements of income of OJSC Stoilensky GOK.

The unaudited pro forma statements of income combine the results of operations of the Group, OJSC Stoilensky GOK (acquired by the Group as of March 31, 2004) and TMTP Group (acquired by the Group as of June 30, 2004) for the years ended December 31, 2004 and 2003 as if the acquisitions occurred on January 1, 2004 and 2003, respectively. These unaudited pro forma statements of income should be read in conjunction with the consolidated financial statements of the Group.

Unaudited proforma income statement data for the year ended December 31, 2004 and 2003 are as follows:

	For the year ended December 31, 2004	For the year ended December 31, 2003
Sales revenue	4,620,124	2,720,714
Operating income	2,217,107	841,781
Income before income tax and minority interest	2,354,558	815,623
Income before minority interest	1,781,686	605,035
Net income	1,760,792	602,621
Net income per share (US dollars)	0.2938	0.1006

The above statements give effect to the following pro forma adjustments necessary to reflect the acquisitions:

- A depreciation charge and respective deferred tax effect for the periods preceding business combinations was calculated on the basis of appraised fair value of property and equipment, including mineral rights, acquired in new subsidiaries.
- An amortization charge and respective deferred tax effect for the periods preceding business combination was calculated on the basis of appraised fair value of intangible assets identified and separated from goodwill in the process of TMTP Group's purchase price allocation.
- Minority interest in net income of acquired subsidiaries for the periods preceding business combinations was calculated on the basis of interest owned by the Group at December 31, 2004.

The unaudited proforma amounts are provided for informational purposes only and do not purport to present the results of operations of the Group had the transactions assumed therein occurred on or as of the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

22 SEGMENTAL INFORMATION

The Group has two reportable business segments: steel and mining. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above two segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to the two operating segments of the Group. Those segments include the trade seaport services business, represented by OJSC TMTP and its subsidiaries, and finance business, comprising banking and insurance services to commercial and retail customers. None of these segments has met any of the quantitative thresholds for determining reportable segments.

The Group accounts for intersegmental sales and transfers as if the sales or transfers were to third parties.

The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

Segmental information for the year ended December 31, 2004 is as follows:

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers . . .	4,399,606	74,965	64,115	4,538,686	—	4,538,686
Intersegmental revenue	3,365	337,344	204	340,913	(340,913)	—
Depreciation and amortization	(174,646)	(59,972)	(9,038)	(243,656)	—	(243,656)
Gross profit	2,182,293	207,805	20,873	2,410,971	(4,643)	2,406,328
Operating income	2,037,325	186,105	18,084	2,241,514	(18,650)	2,222,864
Interest income	31,110	2,382	17,236	50,728	(659)	50,069
Interest expense	(3,326)	(443)	(9,186)	(12,955)	659	(12,296)
Income tax	(530,694)	(40,818)	(4,238)	(575,750)	3,529	(572,221)
Income before minority interest . . .	1,639,276	140,813	17,322	1,797,411	(5,630)	1,791,781
Segment assets, including goodwill . .	3,767,196	984,495	654,131	5,405,822	(239,901)	5,165,921
Capital expenditures	(219,673)	(44,541)	(5,245)	(269,459)	—	(269,459)

Segmental information for the year ended December 31, 2003 is as follows:

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenues from external customers . . .	2,450,193	17,179	650	2,468,022	—	2,468,022
Intersegmental revenues	1,017	23,099	—	24,116	(24,116)	—
Depreciation and amortization	(155,439)	(2,054)	(316)	(157,809)	—	(157,809)
Gross profit / (loss)	1,004,013	4,973	(55)	1,008,931	7,952	1,016,883
Operating income / (loss)	884,209	2,598	(289)	886,518	(4,244)	882,274
Interest income	23,820	—	10,394	34,214	(581)	33,633
Interest expense	(3,151)	(691)	(4,083)	(7,925)	581	(7,344)
Income tax	(221,372)	(435)	(1,228)	(223,035)	—	(223,035)
Income before minority interest	653,775	2,193	3,504	659,472	(773)	658,699
Segment assets	3,022,399	19,431	125,427	3,167,257	(81,992)	3,085,265
Capital expenditures	(232,955)	(2,803)	(3,521)	(239,279)	—	(239,279)

Segmental information for the year ended December 31, 2002 is set out in Note 27.

Notes to the consolidated financial statements
as at and for the years ended December 31, 2004, 2003 and 2002
(thousands of US dollars)

22 SEGMENTAL INFORMATION (continued)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products from international traders (Note 23(c)) and the Group. It does not reflect the geographical location of the international traders. The Group's total revenue from external customers by geographical area for the years ended December 31, 2004, 2003 and 2002, were as follows:

	For the year ended December 31, 2004	For the year ended December 31, 2003	For the year ended December 31, 2002
Russia	1,628,242	1,043,880	662,079
Asia and Oceania	628,238	533,987	338,245
European Union	783,014	384,139	269,687
Middle East, including Turkey	636,044	348,743	174,359
North America	657,427	46,354	147,875
Other regions	205,721	110,919	119,412
	<u>4,538,686</u>	<u>2,468,022</u>	<u>1,711,657</u>

Geographically, all assets, production and administrative facilities of the Group are located in Russia.

As disclosed in Note 23(c), the Group sells to three international traders that accounted for a majority of the Group's export sales in 2004, 2003 and 2002. LLC Insaur-Stal accounted for in excess of 10% of the Group's 2004, 2003 and 2002 domestic sales.

23 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal and political developments.

(b) Convertibility of Russian ruble

Exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Group is required to convert 10% of its foreign currency earnings into Russian rubles starting 2005 (25% before 2005). Future movements in the exchange rate between the Russian ruble and the US dollar will affect the carrying value of the Group's US dollar denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realize non-monetary assets presented in US dollars in these consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such 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.

(c) Commercial risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to unexpected changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

The Group's exports in monetary terms in 2004 were 64% (2003: 58%, 2002: 61%) of the total sales.

Notes to the consolidated financial statements
as at and for the years ended December 31, 2004, 2003 and 2002
(thousands of US dollars)

23 RISKS AND UNCERTAINTIES (continued)

The Group relies on export sales to generate foreign currency earnings. As the Group exports a significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks.

Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2004 is as follows:

	US Dollar	EURO	Other currencies
Cash and cash equivalents	710,503	312,173	—
Accounts receivable	233,097	115,094	—
Other current assets	15,619	—	—
Investments	19,279	—	—
Other non-current assets	17,622	—	—
Accounts payable and other liabilities	(70,361)	(20,214)	(1,933)
Other long-term liabilities	(1,006)	—	—

The Group sells to three international traders that account for the majority of its export sales. In 2004, Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK), and Moorfield Commodities Company, UK, purchased 43%, 30% and 17% of the Group's export sales, respectively (2003: 45%, 33% and 9%). These companies were indirect shareholders of the Parent Company during 2003 and 2002. The maximum shareholdings during 2003 were 7.59%, 9.99% and 7.59%, and at December 31, 2003 were 4.16%, 4.11% and 4.16%, respectively. In 2004 these companies ceased to be indirect shareholders of the Parent Company. Price fluctuations of sales to these companies are in line with general trends in global prices fluctuations. The Group's export prices are comparable to the prices of Russian competitors. Information for the year ended December 31, 2002 is set out in Note 27.

In 2004, the relationships with these international traders were based on a general framework agreement and metals sales agreements. Under the general framework agreement the Group is committed to sell and the international traders are committed to purchase in aggregate at least 70% of the Group's total export volumes of metal products during the period ended December 31, 2007. Prices, however, are determined periodically and are subject to individual pricing agreements.

International prices for products which the Group sells fluctuated during the three years ended December 31, 2004, although a general upward trend existed during this period. The Group's future profitability and overall performance is strongly affected by the prices of ferrous metal products set in the international metal trading market that are subject to significant fluctuations.

24 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at December 31, 2004, 2003 and 2002 and transactions for the years ended December 31, 2004, 2003 and 2002 with related parties of the Group consist of the following (Additional balances and transactions with related parties for 2002 are set out in Note 27).

(a) Sales to and purchases from related parties

Sales

Sales to related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were \$45,715 and \$24,502 for the years ended December 31, 2004 and 2003, respectively, which accounts for 1% and 1% of the total sales revenue. Related accounts receivable equaled \$6,501, \$7,397 and \$898 as at December 31, 2004, 2003 and 2002, respectively.

24 RELATED PARTY TRANSACTIONS (continued)

Purchases and services

Purchases of raw materials, technological equipment, energy and management services from related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were \$220,632 and \$162,951 for the years ended December 31, 2004 and 2003, respectively.

In 2004 and 2003, the Group made payments to one of the Companies under common control, acting as an agent between the Group and railroad companies, for the transportation of raw materials and the Group's products. The payments include both railroad tariff (transferred to railroad companies), and agent fee, retained by the agent. The agent fee and purchases of other materials from this Company under common control amounted to \$8,452 and \$2,979 for the years ended December 31, 2004 and 2003, respectively.

Accounts payable to the related parties were \$2,044, \$7,689 and \$5,362 as at December 31, 2004, 2003 and 2002, respectively.

(b) Financial transactions

The subsidiary bank of the Group had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of \$7,538 and \$9,221 as at December 31, 2004 and 2003, respectively.

Deposits and current accounts of related parties, either the Companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to \$28,642 and \$8,217 as at December 31, 2004 and 2003, respectively.

The Group leased property, plant and equipment under capital lease arrangements with one of the Companies under common control. The amount of capital lease liabilities incurred during the years ended December 31, 2004 and 2003, was \$19,920 and \$17,059, respectively. The capital lease liabilities to this related party as at December 31, 2004 and 2003 amounted to \$545 and \$17,677, respectively. As at the date of these consolidated financial statements, all capital lease transactions with the related party were discontinued (Note 20).

The Group granted interest free loans to management in the total amount of \$71 and \$40 for the years ended December 31, 2004 and 2003, respectively. The aggregate amount of such loans outstanding as at December 31, 2004 and 2003 was \$60 and \$38, respectively.

As at December 31, 2003, the Group had issued guarantees to the Companies under common control amounting to \$38,980 in respect of borrowings from non-group companies (Note 25(h)). There were no guarantees issued to related parties as at December 31, 2004.

In 2003 the Parent Company's shareholders repaid remaining portion of the long-term interest free loan in the amount of \$71,415 (Note 6(e)).

(c) Acquisitions and investments

In 2004 the Companies under common control transferred to the Parent Company 91.4% of the outstanding common shares of OJSC Stoilensky GOK. Such transfers of \$598,735 were recorded as capital contributions. The Group transferred cash consideration to such control parties of \$636,453 which is reflected as distributions to controlling shareholders (Note 21(a)).

In the second half of 2004 the Group made a number of immaterial acquisitions of stock in the Group's companies OJSC Dolomit, OJSC StAGDoK, and an immaterial acquisition of the controlling stock in LLC Independent Transport Company from the Companies under common control in the total amount of \$2,617 (Note 21(d)); acquired non-marketable securities, shares in OJSC Lipetskenergo, for \$944 from one of the Companies

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

24 RELATED PARTY TRANSACTIONS (continued)

under common control, and sold non-marketable securities, shares in OJSC Moscow Pipe Plant Filit, OJSC Almeteyevsky Pipe Plant and CJSC Engels Pipe Plant, for the total consideration of \$2,430 to the Companies under common control (Note 6(d)). The Group sold an investment in associate CJSC Korpus to one of the Companies under common control for the consideration of \$3,124 (Note 6(c)). In 2003 the Group sold its share in OJSC Coal Mining Company Kuzbassugol for the consideration of \$38,104 to one of the Companies under common control (Note 6(d)).

(d) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund amounted to \$2,607, \$2,216 and \$1,876 in 2004, 2003 and 2002, respectively. The Group has the right to appoint and dismiss top management of the fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the fund.

Contributions to the charity fund controlled by the Group's management were \$6,941 in 2004. There were no such contributions in 2003 and 2002.

25 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject to from time to time compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the consolidated financial statements.

(c) Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Insurance

The Russian insurance market is in a developing stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, land transport, an aircraft and purchased accident and health insurance, inter-city motor vehicle passenger insurance and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

25 COMMITMENTS AND CONTINGENCIES (continued)

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$52,230 as at December 31, 2004.

(f) 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 certain social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(g) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

(h) Financial guarantees issued

As at December 31, 2004, the Group has issued guarantees to third parties amounting to \$1,365. As at December 31, 2003, the Group had issued guarantees to related parties amounting to \$38,980 in respect of borrowings from non-group companies (Note 24). In 2004, these guarantees ceased to be effective. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

26 SUBSEQUENT EVENTS

In March 2005 the Group sold 18% of the outstanding voting shares of OJSC Combinat KMAruda ("KMAruda"), a Group's subsidiary included in the mining segment, to a third party for a cash consideration of \$1,958. The transaction resulted in the Group's ownership being reduced to 32.9% and changed the KMAruda's status to an associate. The assets, liabilities and net income of KMAruda as at and for the year ended December 31, 2004, calculated on a stand-alone basis, amounted to \$31,457, \$3,662 and \$18,268, respectively.

In April 2005, the Board of Directors of the Parent Company proposed dividends for the year ended December 31, 2004 of 1.8 Russian ruble per share in the total amount of Russian rubles 10,787,809 thousand (\$388,768 at the exchange rate as at December 31, 2004). The amount of dividends proposed include interim dividends for the nine months ended September 30, 2004 of 1 Russian ruble per share, declared in December 2004 (Note 15(b)). The final amount of dividends is subject to the approval by the annual General Stockholders' Meeting.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

**27 RECLASSIFICATIONS AND ADDITIONAL DISCLOSURES FOR THE YEAR ENDED
DECEMBER 31, 2002 (unaudited)**

Reclassifications

The following reclassifications have been made to the financial statements as of and for the year ended December 31, 2002 after the initial issuance of those financial statements and the related audit report. The "Previously reported and audited" column was derived from the previously reported financial statements that were audited by independent auditors, before reclassifications.

Data from the consolidated balance sheet as at December 31, 2002

	Previously reported and audited	Reclassification	As reclassified
ASSETS			
Current assets			
Cash and cash equivalents	390,472	(7,515)	382,957
Short-term investments	43,255	1,232	44,487
Accounts receivable, net	305,004	(38,805)	266,199
Inventories, net	198,978	11,650	210,628
Other current assets, net	9,618	22,624	32,242
Restricted cash	—	7,515	7,515
	<u>947,327</u>	<u>(3,299)</u>	<u>944,028</u>
Non-current assets			
Other non-current assets	23,537	(7,457)	16,080
Total non-current assets	<u>1,262,415</u>	<u>(7,457)</u>	<u>1,254,958</u>
Total assets	<u>2,209,742</u>	<u>(10,756)</u>	<u>2,198,986</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short term borrowings	3,346	(3,346)	—
Accounts payable and other liabilities	164,242	(10,137)	154,105
Short-term capital lease liability	—	1,727	1,727
Total current liabilities	<u>184,694</u>	<u>(11,756)</u>	<u>172,938</u>
Non-current liabilities			
Long-term borrowings	2,988	1,000	3,988
Total non-current liabilities	<u>20,979</u>	<u>1,000</u>	<u>21,979</u>
Total liabilities	<u>205,673</u>	<u>(10,756)</u>	<u>194,917</u>
Stockholders' equity			
Statutory reserve	—	32	32
Retained earnings	1,972,335	(32)	1,972,303
Total stockholders' equity	<u>1,991,178</u>	<u>—</u>	<u>1,991,178</u>
Total liabilities and stockholders' equity	<u>2,209,742</u>	<u>(10,756)</u>	<u>2,198,986</u>

27 RECLASSIFICATIONS AND ADDITIONAL DISCLOSURES FOR THE YEAR ENDED DECEMBER 31, 2002 (unaudited) (continued)

Data from consolidated statement of income for the year ended December 31, 2002

	Previously reported and audited	Reclassification	As reclassified
Operating income	511,913	—	511,913
Gain / (loss) on investments	(31,327)	28,652	(2,675)
Net interest income	18,940	(18,940)	—
Interest income	—	14,218	14,218
Interest expense	—	(3,386)	(3,386)
Other expense	(5,510)	(20,544)	(26,054)
Operating income before income tax and minority interest	466,874	—	466,874

Data from consolidated statement of cash flows for the year ended December 31, 2002

	Previously reported and audited	Reclassification	As reclassified
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	338,418	—	338,418
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) / loss on investments	31,327	(28,652)	2,675
Other movements	(9,536)	28,652	19,116
Changes in operating assets and liabilities			
Increase in accounts receivables	(63,902)	38,804	(25,098)
Increase in other current assets	(4,089)	(15,628)	(19,717)
Increase in loans provided by the subsidiary bank	—	(12,420)	(12,420)
Increase in accounts payable and other liabilities	54,280	(10,756)	43,524
Net cash provided by operating activities	497,414	—	497,414
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans given	—	(85,000)	(85,000)
Proceeds from loans given	—	13,987	13,987
Proceeds from sale of investments	29,108	(13,987)	15,121
Purchase of long-term investments	(7,055)	7,055	—
Purchase of short-term investments	(85,051)	77,945	(7,106)
Movement in restricted cash	—	(6,015)	(6,015)
Net cash used in investing activities	(215,784)	(6,015)	(221,799)
Net increase in cash and cash equivalents	200,443	(6,015)	194,428
Cash and cash equivalents at beginning of the year	190,029	(1,500)	188,529
Cash and cash equivalents at end of the year	390,472	(7,515)	382,957
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income tax	126,482	(18,815)	107,667
Interest	790	2,235	3,025
Non cash operating activities:			
Offset of income tax payable with VAT receivable	—	18,820	18,820
Non cash investing activities:			
Capital lease liabilities incurred	—	4,760	4,760

Cash and cash equivalents balance as at December 31, 2002 has been changed due to the reclassification of restricted cash balance in a separate line in the balance sheet.

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

**27 RECLASSIFICATIONS AND ADDITIONAL DISCLOSURES FOR THE YEAR ENDED
DECEMBER 31, 2002 (unaudited) (continued)**

**Data from consolidated statement of stockholders' equity and comprehensive income for the year ended
December 31, 2002**

<u>Balance at December 31, 2002</u>	<u>Common stock</u>	<u>Statutory reserve</u>	<u>Preferred stock</u>	<u>Additional paid-in capital</u>	<u>Other comprehensive income</u>	<u>Retained earnings</u>	<u>Total stockholders' equity</u>
Previously reported amounts in audited financial statements	14,440	—	—	680	3,723	1,972,335	1,991,178
Reclassification	—	32	—	—	—	(32)	—
As reclassified	14,440	32	—	680	3,723	1,972,303	1,991,178

As a result of the reclassifications set out above, the following modifications or additions were also made to the corresponding footnote disclosures:

Modified footnote disclosures

	<u>As at December 31, 2002</u>		
	<u>Previously reported and audited</u>	<u>Reclassification</u>	<u>As reclassified</u>
Cash and cash equivalents			
Cash—Russian rubles	45,571	(7,515)	38,056
Restricted cash			
Obligatory cash reserves	—	7,515	7,515
Trading securities			
Other	—	1,232	1,232
Accounts receivable			
Taxes receivable	85,581	(10,756)	74,825
Other accounts receivable	46,277	(29,900)	16,377
Allowance for doubtful debts	(8,340)	1,851	(6,489)
Inventories			
Raw materials	119,085	11,650	130,735
Accounts payable and other liabilities			
Advances received	63,673	(10,756)	52,917
Customers' deposits and accounts in the subsidiary bank	—	16,912	16,912
Accounts payable and accrued liabilities to employees	18,441	2,492	20,933
Notes payable	—	3,346	3,346
Current portion of lease obligation	1,727	(1,727)	—
Accrued expenses	2,492	(2,492)	—
Other accounts payable	25,249	(17,912)	7,337

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

27 RECLASSIFICATIONS AND ADDITIONAL DISCLOSURES FOR THE YEAR ENDED DECEMBER 31, 2002 (unaudited) (continued)

Additional footnote disclosures

	As at December 31, 2002
Other current and non-current assets	
Other current assets	
Short-term loans provided by OJSC Lipetskcombank	25,707
Other current assets	8,386
	<u>34,093</u>
Allowance for doubtful loans	(1,851)
Total other current assets	<u>32,242</u>
Other non-current assets	
Long-term loans provided by OJSC Lipetskcombank	4,193
Other non-current assets	11,887
Total other non-current assets	<u>16,080</u>
	<u>As at December 31, 2002</u>
Other long-term liabilities	
Customers' deposits in the subsidiary bank	1,000
Notes payable	2,988
	<u>3,988</u>

Additional and modified disclosures other than resulting from reclassifications

The following additional disclosures relate to the year ended December 31, 2002 that were not included in the 2002 financial statements when they were initially issued with the related audit report.

Segmental information for the year ended December 31, 2002 is as follows:

	Steel	Mining	All other	Totals	Intersegmental operations and balances	Consolidated
Revenues from external customers	1,692,552	19,105	—	1,711,657	—	1,711,657
Intersegmental revenues	6,603	12,867	—	19,470	(19,470)	—
Depreciation and amortization	(142,923)	(3,129)	(275)	(146,327)	—	(146,327)
Gross profit / (loss)	605,923	3,659	(275)	609,307	5,965	615,272
Operating income / (loss)	509,204	255	(458)	509,001	2,912	511,913
Interest income	9,847	—	4,679	14,526	(308)	14,218
Interest expense	(812)	(428)	(2,454)	(3,694)	308	(3,386)
Income tax	(129,045)	(155)	(499)	(129,699)	—	(129,699)
Income / (loss) before minority interest . . .	343,392	(1,760)	(2,282)	339,350	(2,175)	337,175
Segment assets	2,175,478	17,643	86,354	2,279,475	(80,489)	2,198,986
Capital expenditures	(152,186)	(456)	(990)	(153,632)	—	(153,632)

Minority interest movements were as follows:

	Minority interest
Balance as at January 1, 2002	10,407
Minority's share in subsidiaries' loss from continuing operations	(1,243)
Issuance of additional stock by subsidiaries to minority stockholders	3,727
Balance as at December 31, 2002	<u>12,891</u>

OJSC NLMK

Notes to the consolidated financial statements

as at and for the years ended December 31, 2004, 2003 and 2002

(thousands of US dollars)

27 RECLASSIFICATIONS AND ADDITIONAL DISCLOSURES FOR THE YEAR ENDED DECEMBER 31, 2002 (unaudited) (continued)

The following disclosures reflect the retroactive effect of the stock split referred to in Note 17 that were not included in the financial statements for the year ended December 31, 2002 when they were initially issued with the related audit report:

Earnings per share

	<u>Year ended December 31, 2002</u>
Average number of shares	
before restatement	5,985,657
after restatement (Note 17)	5,991,642,657
Net income	338,418
Basic and diluted net income per share (US dollars)	<u>0.0565</u>

The average shares outstanding for purposes of basic and diluted earnings per share information were 5,991,642,657 for the year ended December 31, 2002. Based on this, income from continuing operations per share for the year ended December 31, 2002 was US dollar 0.0565 per share.

Related parties

Sales to related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were \$14,748 for the year ended December 31, 2002, which accounts for 0.9% of the total sales revenue (previously reported amounts included in audited footnotes: \$12,821. This was equal to 0.7% of the total sales revenue).

Purchases of raw materials and management services from related parties, either the Companies under common control or companies under control or significant influence of the Group's management, were \$47,861 for the year ended December 31, 2002 (previously reported amount included in audited footnotes: \$46,003).

The following related party transactions have been additionally disclosed:

- The subsidiary bank of the Group had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of \$1,311 as at December 31, 2002.
- The Group leased property, plant and equipment under capital lease arrangements with one of the Companies under common control. The amount of capital lease liabilities incurred during the years ended December 31, 2002, was \$4,760. The capital lease liabilities to this related party as at December 31, 2002 amounted to \$4,195.
- The Group granted interest free loans to management in the total amount of \$43 for the year ended December 31, 2002. The aggregate amount of such loans outstanding as at December 31, 2002 was \$41.
- As at December 31, 2002, the Group had issued guarantees to the Companies under common control amounting to \$7,649 in respect of borrowings from non-group companies.

Non-cash transactions

Approximately \$2,000 (previously reported amount included in audited footnotes: \$5,000) of the Group's 2002 revenues were settled in the form of mutual offset against the liability to pay for raw materials supplied.

Operational leases

The Group incurred expenses in respect of operational leases in 2002 of \$5,341 (previously reported amount included in audited footnotes: \$6,626).

OJSC NLMK

**Notes to the consolidated financial statements
as at and for the years ended December 31, 2004, 2003 and 2002
(thousands of US dollars)**

**27 RECLASSIFICATIONS AND ADDITIONAL DISCLOSURES FOR THE YEAR ENDED
DECEMBER 31, 2002 (unaudited) (continued)**

Risks and uncertainties—commercial risks

In 2002, Steelco Mediterranean Trading Ltd., Cyprus; Tuscany Intertrade (UK); and Moorfield Commodities Company, UK, purchased 25%, 55% and 11% of the Group's export sales, respectively (previously reported percentages included in audited footnotes: 27%, 55% and 10%, respectively). These companies were indirect shareholders of the Parent Company during 2002. Price fluctuations of sales to these companies are in line with general trends in global prices fluctuations. The Group's export prices are comparable to the prices of Russian competitors.

Property, plant and equipment

As at December 31, 2002, the net book value of property, plant and equipment determined with the assistance of an independent appraiser (Note 10) amounted to 65% of total net book value of property, plant and equipment.

Our consolidated financial statements as of and for the years ended December 31, 2002 and 2001 are included in this Prospectus in accordance with the requirements of the Prospectus Directive. Our consolidated financial statements as of and for the years ended December 31, 2004, 2003 and 2002 (also included in this prospectus on pages F-5 to F-42) contain certain reclassifications and additional disclosures relating to the financial information as of and for the year ended December 31, 2002 made after initial issuance of our financial statements for the year ended December 31, 2002 and the related audit report. A description of these reclassifications and additional disclosures made to the financial statements for the year ended December 31, 2002 is set forth in Note 27 to our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 included in this prospectus.

**OPEN JOINT STOCK COMPANY
NOVOLIPETSK STEEL**

CONSOLIDATED FINANCIAL STATEMENTS

**PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

**AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2002 AND 2001**

(WITH REPORTS OF INDEPENDENT AUDITORS THEREON)

Independent Auditor's Report

To the Board of Directors
Open joint stock company Novolipetsk Iron and Steel Corporation

We have audited the accompanying consolidated balance sheets of open joint stock company Novolipetsk Iron and Steel Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company'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 open joint stock company Novolipetsk Iron and Steel Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 9, 2003

**Consolidated balance sheets
at December 31, 2002 and 2001**

(All amounts in thousands of US dollars, except for share data)

	As at December 31, 2002	As at December 31, 2001
ASSETS		
Current assets		
Cash and cash equivalents	390,472	190,029
Short term investments	43,255	—
Accounts receivable, net of allowance for doubtful debts	305,004	241,102
Inventories, net	198,978	180,030
Other current assets	9,618	5,529
	<u>947,327</u>	<u>616,690</u>
Non-current assets		
Investments, net of current portion	71,164	74,212
Property, plant and equipment, net book value	1,167,714	1,174,682
Other non-current assets	23,537	29,659
Intangible assets	—	997
	<u>1,262,415</u>	<u>1,279,550</u>
Total assets	<u>2,209,742</u>	<u>1,896,240</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term borrowings	3,346	92,367
Accounts payable and accrued expenses	164,242	108,235
Income tax	17,106	10,266
	<u>184,694</u>	<u>210,868</u>
Non-current liabilities		
Long term borrowings	2,988	3,162
Obligation under capital lease, net of current portion	2,468	—
Deferred income tax	15,523	19,780
	<u>20,979</u>	<u>22,942</u>
Total liabilities	<u>205,673</u>	<u>233,810</u>
Minority interest	<u>12,891</u>	<u>10,407</u>
Stockholders' equity		
Common stock, 1 RUB par value—5,987,240 and 5,985,241 shares authorized, issued and outstanding at December 31, 2002 and 2001, respectively	14,440	14,435
Preferred stock, 1 RUB par value—1,999 shares authorized, issued and outstanding at December 31, 2001	—	5
Additional paid-in capital	680	680
Accumulated other comprehensive income	3,723	2,986
Retained earnings	1,972,335	1,633,917
	<u>1,991,178</u>	<u>1,652,023</u>
Total liabilities and stockholders' equity	<u>2,209,742</u>	<u>1,896,240</u>
Commitments and contingencies (refer note 21)		

The accompanying notes are an integral part of these consolidated financial statements

**Consolidated statements of income
for the years ended December 31, 2002 and 2001**

(All amounts in thousands of US dollars, except for earnings per share amounts)

	For the year ended December 31, 2002	For the year ended December 31, 2001
Net sales	1,711,657	1,322,431
Cost of sales	(1,096,385)	(1,048,635)
Gross profit	615,272	273,796
Selling, general and administrative expenses	(103,359)	(68,432)
Operating income	511,913	205,364
Loss on disposals of property, plant and equipment and impairment	(8,895)	(15,600)
(Loss) / gain from sale and permanent diminution in value of investments	(31,327)	651
Net interest income	18,940	6,315
Foreign currency exchange loss, net	(18,247)	(21,428)
Other expense	(5,510)	(12,710)
Income before income tax and minority interest	466,874	162,592
Income tax expense	(129,699)	(75,515)
Income before minority interest	337,175	87,077
Minority interest	1,243	455
Net income	338,418	87,532
Earnings per share of common stock (US dollars)		
Basic and diluted	56.54	14.62

The accompanying notes are an integral part of these consolidated financial statements

Consolidated statements of cash flows
for the years ended December 31, 2002 and 2001
(thousands of US dollars)

	<u>For the year ended December 31, 2002</u>	<u>For the year ended December 31, 2001</u>
OPERATING ACTIVITIES		
Net income	338,418	87,532
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest	(1,243)	(455)
Depreciation and amortization	146,327	159,688
Loss on disposals of property, plant and equipment and impairment ...	8,895	15,600
Loss / (gain) from sale and permanent diminution in the value of investments	31,327	(651)
Deferred income tax benefit	(4,257)	(8,177)
Other movements, net	(9,536)	946
Changes in operating assets and liabilities		
Increase in accounts receivables	(63,902)	(3,860)
Increase in inventories	(5,646)	(16,048)
Increase in other current assets	(4,089)	(2,453)
Increase / (decrease) in accounts payable and accrued expenses	54,280	(21,833)
Increase in income tax payable	6,840	4,468
Net cash provided by operating activities	497,414	214,757
INVESTING ACTIVITIES		
Proceeds from sales of property, plant and equipment	846	3,284
Purchase of property, plant and equipment and other non-current assets	(153,632)	(140,579)
Proceeds from sale of investments	29,108	1,494
Purchase of investments	(85,051)	(54,071)
Purchase of short-term investments	(7,055)	(427)
Net cash used in investing activities	(215,784)	(190,299)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	3,576	4,645
Repayment of borrowings	(87,925)	(1,666)
Proceeds from issuance of stock in subsidiaries to minority holders ...	3,727	3,316
Payments under capital lease	(565)	—
Proceeds from sale of treasury stock	—	80
Net cash (used in) / provided by financing activities	(81,187)	6,375
Net increase in cash and cash equivalents	200,443	30,833
Cash and cash equivalents at beginning of year	190,029	159,196
Cash and cash equivalents at end of year	390,472	190,029
Supplemental disclosures of cash flow information:		
Income taxes paid	126,482	99,756
Interest paid	790	901

The accompanying notes are an integral part of these consolidated financial statements

**Consolidated statements of stockholders' equity and comprehensive income
for the years ended December 31, 2002 and 2001**
(thousands of US dollars)

	Common stock	Preferred stock	Additional paid-in capital	Other comprehensive income	Retained earnings	Treasury stock	Total
Balance at December 31, 2000 . . .	<u>14,435</u>	<u>5</u>	<u>680</u>	<u>1,699</u>	<u>1,546,385</u>	<u>(68)</u>	<u>1,563,136</u>
Net income	—	—	—	—	87,532	—	87,532
Net unrealized gain on available for sale securities	—	—	—	1,287	—	—	1,287
Sale of treasury stock	—	—	—	—	—	68	68
Balance at December 31, 2001 . . .	<u>14,435</u>	<u>5</u>	<u>680</u>	<u>2,986</u>	<u>1,633,917</u>	<u>—</u>	<u>1,652,023</u>
Net income	—	—	—	—	338,418	—	338,418
Net unrealized gain on available for sale securities	—	—	—	737	—	—	737
Converting preferred shares into ordinary shares	5	(5)	—	—	—	—	—
Balance at December 31, 2002 . . .	<u>14,440</u>	<u>—</u>	<u>680</u>	<u>3,723</u>	<u>1,972,335</u>	<u>—</u>	<u>1,991,178</u>

The accompanying notes are an integral part of these consolidated financial statements

1. BACKGROUND

(a) Organization and operations

Open joint stock company Novolipetsk Iron and Steel Corporation (the “Company” or the “Parent company”) and its subsidiaries (together the “Group”) is one of the largest iron and steel holdings in the Russian Federation with an entire steel production cycle. The Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent company was originally established as a State owned enterprise in 1934 and was privatized on January 28, 1993. On August 12, 1998 the Company’s name was reregistered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Company’s principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings. These products are sold both in the Russian Federation and abroad.

The Group’s main operations are in the Lipetsk region of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the Lipetsk regional authorities.

The Company’s primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, are:

- Commercial bank OJSC Lipetskcombank, Lipetsk. A controlling interest was acquired by the Group in 2000. The bank possesses a general license from the Central Bank of the Russian Federation, a license for foreign currency operations and a license for brokerage activity. The bank provides general banking services for commercial and retail customers.
- Trading company Stahl Ltd., Uglich, Yaroslavl region, was established in 1998 as a 100% subsidiary of the Company. The principal activity of this company is the purchase of raw materials for the Group’s metallurgical production and sales of metal products.
- Trading company Vimet Ltd., Lipetsk. A controlling interest was acquired by the Group in 2002. The principal activity of this company is the purchase of raw materials for the Group’s metallurgical production and sales of metal products.
- Mining company OJSC Combinat KMAruda, Gubkin, Belgorod region, was purchased by the Group in 2000. The principal activity of the company is mining, processing of iron-ore raw concentrate for the metallurgical production.
- Insurance company LIS Chance Ltd., Lipetsk. A controlling interest was acquired by the Group in 1994. The principal business activities of the Company are property and casualty, life, medical insurance, vehicle insurance, civil liability insurance.
- Trading company Larmet Ltd., Moscow. A controlling interest was acquired by the Group in 2002. The principal activity of this company is the purchase of raw materials for the Group’s metallurgical production and sales of metal products.
- Mining company OJSC Studenovskaya joint stock mining company, Lipetsk. A controlling interest was acquired by the Group in 1999. The principal activity is mining and processing of fluxing limestone.
- Mining company OJSC Dolomite, Dankov, Lipetsk region. A controlling interest by the Group was acquired in 1997. The principal activity is mining and processing of metallurgical dolomite.

(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 consolidated 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 Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

(b) Functional and reporting currency

The accounting records of the Group are maintained in Russian rubles and the Company prepares its statutory financial statements and reports in that currency to its shareholders in accordance with the laws of the Russian Federation.

As the Russian economy was considered to be hyperinflationary, the US dollar is the functional and reporting currency of the Group in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, *Foreign Currency Translation*.

Monetary assets and liabilities have been measured into US dollars at the exchange rates prevailing at each balance sheet date. Non-monetary assets including fixed assets and liabilities have been measured into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at weighted average rates for the periods of the transactions. Foreign currency gains and losses are included in the consolidated income statement.

The Central Bank of the Russian Federation closing rates of exchange ruling at December 31, 2002 and 2001 were 1 US dollar to 31.78 Russian rubles and 1 US dollar to 30.14 Russian rubles, respectively. The annual weighted average exchange rates were 31.35 and 29.16 Russian rubles to the US dollar for the years ended December 31, 2002 and 2001, respectively.

(c) Convertibility of the Russian ruble

The Russian ruble is not a convertible currency outside the Commonwealth of Independent States. Accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown or at any other exchange rate.

(d) Going concern

The accompanying consolidated 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 operation of the Group, may be significantly affected by the current and future economic environment (refer note 1(b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) Consolidation

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest and which the Company controls, are included with the financial position and results of the Company in these consolidated financial statements. All significant intercompany transactions have been eliminated upon consolidation.

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) Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with US GAAP. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on deposit and other highly liquid short-term investments with original maturities of less than three months.

(c) Accounts receivable

Receivables are stated at cost less allowance for doubtful debts. Management quantifies this provision based on current information regarding the customers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(d) 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 expenditures incurred in acquiring inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads.

(e) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities in one of three categories: trading, held to maturity and available for sale. The specific identification method is used for determining the cost basis of all such securities.

(i) Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

(ii) Held to maturity securities

Held to maturity securities are those securities in which the Group has the ability and intent to hold until maturity. Held to maturity securities are recorded at amortized cost.

Premiums and discounts are amortized to the consolidated statement of income over the life of the related security held to maturity, as an adjustment to yield using the effective interest method.

(iii) Available for sale securities

All marketable securities not included in trading or held to maturity are classified as available for sale.

Available for sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available for sale securities, less tax, are determined on a specific identification basis.

Premiums and discounts on available for sale securities are amortized to the consolidated statement of income over the life of the related available for sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

(f) Investments in affiliates and non-marketable securities

(i) Investments in affiliates

Affiliates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in affiliates are accounted for using the equity method of accounting

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

and the consolidated financial statements include the Group's share of the total recognized gains and losses of affiliates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(ii) Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provision for any permanent diminution in value.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer note 3(i)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Property, plant and equipment also includes assets under construction and the equipment for installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under 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 or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer note 3(i)).

Payments for operating leases, under which the Group does not assume substantially all the risks and rewards of ownership, are expensed in the period they are incurred.

(iii) Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized in the consolidated statement of income as incurred.

(iv) Capitalized interest

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates, and is amortized over the asset's useful life.

(v) Depreciation

Depreciation is charged on a straight-line basis over the estimated useful lives of the individual assets. Plant and equipment under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the individual assets. Depreciation commences from the time an asset is put into operation. Land is not depreciated. Depreciation is not charged on assets to be disposed of. The range of estimated useful lives are as follows:

Buildings	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years
Software	6 – 12 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Group adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* as of January 1, 2002. Under SFAS No. 142 goodwill and intangible assets with indefinite useful lives are no longer amortized as they were prior to 2002, but are instead tested for impairment at least annually.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

(i) Impairment

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 an 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 undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j) Pension and post retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation, which requires contributions to the Russian Federation Pension Fund by the employer calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Company also sponsors other post retirement benefits for its employees. All of these benefits are part of an annually negotiated Trade Union agreement. These benefits do not vest and may be cancelled when the Trade Union agreement is negotiated annually.

The Parent company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund afterwards. As such, all abovementioned benefits are considered as made under a defined contribution plan and are charged to expense as incurred.

In addition, lump sum benefits are paid on retirement depending on the employment period and the salary level of the individual employee. The expected future obligations to the employees are assessed by the Company's management and accrued in the consolidated financial statements. The scheme is considered as a defined benefit plan.

(k) Long-term borrowings

Long-term borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, long-term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of income over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated statement of income.

(l) Commitments and contingencies

Liabilities for loss contingencies, including environmental remediation costs, 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 and / or remediation can be reasonably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

(m) 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 temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. 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.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Stockholders' equity

(i) Treasury stock

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are presented as a deduction from total equity.

(ii) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(o) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is recognized in the consolidated statement of income when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Interest income

Interest income is recognized in the consolidated statement of income on an accrual basis.

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of income as expenses as incurred.

(ii) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and is capitalized (refer note 3(g)).

(q) Non-cash settlement arrangements

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalent is defined and goods are shipped between the parties without physical movement of cash.

The related sales and purchases are recorded in the same manner as cash transactions.

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Related parties

The following are considered to be related parties:

- affiliates of the Group;
- the Group's principal owners and their immediate families;
- enterprises and trusts for the benefit of the employees, including pension and profit sharing trusts that are managed by or under the trusteeship of the Group's management;
- directors and officers of the Group and their immediate families;
- enterprises in which principal shareholders, officers and directors and their immediate families have control or significant influence;
- other parties with which the Group deals if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2002	As at December 31, 2001
Cash—Russian rubles	45,571	10,164
Cash—foreign currency	841	32,741
Deposits—Russian rubles	13,552	—
Deposits—foreign currency	128,500	145,397
Cash in trust—foreign currency	197,900	—
Other cash equivalents	4,108	1,727
	<u>390,472</u>	<u>190,029</u>

Cash in Russian rubles as at December 31, 2002 and 2001 includes the amounts of obligatory reserve, placed with the Central Bank of the Russian Federation by a subsidiary bank in accordance with statutory requirements for credit institutions of \$7,515 and \$1,500, respectively.

Other cash equivalents as at December 31, 2002 and 2001 include the amounts of letters of credit amounting to \$3,352 and \$1,517, respectively.

In 2002 the Company transferred surplus cash into a cash management account with a Russian bank with international share in equity. This cash is available at the Company's call.

5. INVESTMENTS

(a) Available for sale securities

Available for sale securities as at December 31, 2002 and 2001 consist of Russian Government bonds: OVGYZ and OFZ securities, and deposit certificates.

	As at December 31, 2002	As at December 31, 2001
Government bonds		
Cost	921	1,200
Gross unrealized holding gains	3,723	2,986
Deposit certificates	6,844	—
Fair value	<u>11,488</u>	<u>4,186</u>

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

5. INVESTMENTS (continued)

Maturities of debt securities classified as available for sale as at December 31, 2002 are presented below.

	Fair value
Due within one year	5,151
Due in one to five years	4,018
Due after five years	2,319
	<u>11,488</u>

Russian Government OVGZ securities with a face value of \$3,180 are pledged to secure the redemption of the Company's promissory notes issued in 2000 for the purchase of shares in CJSC Korpus (refer note 9). These promissory notes are denominated in Russian rubles and mature in 2008.

Unrealized gains and losses, determined as a difference at the balance sheet date between purchase price and fair value of the securities, are taken directly to equity and included in accumulated other comprehensive income.

(b) Investments in affiliates

	For the year 2002 Ownership	For the year 2001 Ownership	As at December 31, 2002	As at December 31, 2001
CJSC Korpus	40.00%	40.00%	3,042	3,042
CJSC Stalconverst	36.80%	36.80%	1,974	1,974
OJSC AKB Lipetskcredit	22.19%	22.19%	1,034	1,034
OJSC Avron	26.70%	26.70%	376	376
OJSC Lipetsky Giprometz	43.44%	43.44%	7	7
OJSC Bank ZENIT	—	20.00%	—	13,714
OJSC Bryanskmetallresources	—	28.30%	—	21
			<u>6,433</u>	<u>20,168</u>
Provision for permanent diminution in value			(3,384)	(3,405)
			<u>3,049</u>	<u>16,763</u>

(c) Non-marketable securities

	For the year 2002 Ownership	For the year 2001 Ownership	As at December 31, 2002	As at December 31, 2001
OJSC Coal Mining Company				
Kuzbassugol	17.70%	17.70%	39,787	39,787
OJSC Lebedinsky GOK	11.96%	11.96%	8,546	8,546
OJSC Yakovlevsky rudnik	9.48%	9.48%	5,372	5,372
OJSC Lipetskenargo	12.21%	12.21%	2,102	2,102
OJSC Lipetskoblaz	19.40%	19.40%	644	644
OJSC Almetievsky pipe plant	14.53%	14.53%	516	516
OJSC Moscow pipe plant Filit	12.00%	12.00%	392	392
Other	—	—	1,659	1,497
			<u>59,018</u>	<u>58,856</u>
Provision for permanent diminution in value			(7,827)	(5,593)
			<u>51,191</u>	<u>53,263</u>

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

5. INVESTMENTS (continued)

(d) Loans given

	As at December 31, 2002	As at December 31, 2001
Long-term loan	48,691	—
	<u>48,691</u>	<u>—</u>

The balance of the long-term loan represents an amortized cost of a Russian ruble denominated interest free loan payable before December 31, 2004. At the date of issue the long term loan of \$85,000 was accounted for at its fair value. The difference between face and fair value of \$28,652 was accounted for as a loss from investments in the consolidated statement of income. Interest income of \$8,108 was recognized in the consolidated statement of income. In 2002 an amount of \$13,987 was repaid by the borrower.

The fair value of the loan is calculated based on an annual commercial interest rate of 19% at the date of issue and an assumption that the loan will be repaid at the end of 2004.

	As at December 31, 2002	As at December 31, 2001
Total investments	114,419	74,212
Less current portion	43,255	—
Long term investments, net	<u>71,164</u>	<u>74,212</u>

6. ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2002	As at December 31, 2001
Trade accounts receivable	165,293	153,093
Advances given to suppliers	15,225	20,738
Taxes receivable other than income tax	85,581	51,021
Accounts receivable from employees	968	902
Other accounts receivable	46,277	27,053
	313,344	252,807
Allowance for doubtful debts	(8,340)	(11,705)
	<u>305,004</u>	<u>241,102</u>

As at December 31, 2002 and 2001 the Group had receivables from Tuscany Intertrade, Great Britain, which exceeded 10% of the gross accounts receivable balances. The outstanding balances owed by this debtor totaled \$54,290 and \$107,100 at December 31, 2002 and 2001, respectively.

As at December 31, 2002 receivables from Steelco Mediterranean Trading Ltd., Cyprus, and Moorfield Commodities Company, Great Britain, also exceeded 10% of the gross accounts receivable balances and totaled \$47,093 and \$28,590, respectively.

7. INVENTORIES

	As at December 31, 2002	As at December 31, 2001
Finished goods and goods for resale	26,564	31,152
Work in process	54,475	42,908
Raw materials	119,085	119,735
	200,124	193,795
Provision for obsolescence	(1,146)	(13,765)
	<u>198,978</u>	<u>180,030</u>

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2002	As at December 31, 2001
Land	32,844	—
Buildings	507,486	508,777
Machinery and equipment	3,485,774	3,508,192
Vehicles	99,531	97,761
Construction in progress	168,717	89,952
Land improvement	633,344	621,089
Leased assets	4,760	—
Other	6,099	12,442
	<u>4,938,555</u>	<u>4,838,213</u>
Accumulated depreciation	<u>(3,770,841)</u>	<u>(3,663,531)</u>
	<u>1,167,714</u>	<u>1,174,682</u>

In 2002 the Parent company has reclassified the cost of certain property, plant and equipment previously included in machinery and equipment into other groups. This reclassification has no depreciation effect.

A reclassification table of property, plant and equipment at cost is shown below:

	As at December 31, 2001	Reclassification	As at December 31, 2001 adjusted
Buildings	506,579	2,198	508,777
Machinery and equipment	3,936,362	(428,170)	3,508,192
Vehicles	96,166	1,595	97,761
Land improvement	198,480	422,609	621,089
Other	10,674	1,768	12,442
	<u>4,748,261</u>		<u>4,748,261</u>

The cost of property, plant and equipment purchased or constructed prior to 1992 was determined with the assistance of an independent appraiser. The valuer provided US dollar estimates of historical cost and depreciated historical cost of the Company's property, plant and equipment. These historical cost estimates were necessary due to the absence of reliable US GAAP accounting records and impairment calculations.

During 2002 the Parent company has bought property rights on land under its production units.

Starting from second quarter 2002 until the moment of acquisition the Parent company had been renting land and paid rental payments, including land tax. After acquisition the Company pays land tax.

The Company also pays rental payments and land tax for other estate property beyond its production units.

9. BORROWINGS

	As at December 31, 2002	As at December 31, 2001
Short-term borrowings		
8% US dollar promissory notes at nominal cost	—	76,966
Promissory notes	3,008	—
US dollar denominated loan	—	12,207
Other short-term debts	338	3,194
	<u>3,346</u>	<u>92,367</u>
Long-term borrowings		
Interest free own promissory notes	2,832	2,986
Other long-term debts	156	176
	<u>2,988</u>	<u>3,162</u>

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

9. BORROWINGS (continued)

As of December 31, 2001 the 8% interest bearing promissory notes of \$76,966 (at nominal cost) represented ordinary promissory notes, issued by the Company under a loan novation agreement with related party, signed in 2001. During 2002 these promissory notes were completely settled with a discount of \$4,535 that was recorded in net interest income.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	As at December 31, 2002	As at December 31, 2001
Accounts payable	36,727	44,053
Advances received	63,673	22,300
Taxes payable other than income tax	15,933	7,207
Accrued expenses	2,492	3,060
Accounts payable to employees	18,441	15,962
Current portion of lease obligation	1,727	—
Short term loans	—	2,186
Other payables	25,249	13,467
	<u>164,242</u>	<u>108,235</u>

11. STOCKHOLDERS' EQUITY

(a) Stock

The Company has 5,987,240 issued shares with a par value of 1 Russian ruble. As of December 31, 2001 the Company had 5,985,241 common stock and 1,999 preferred stock. The holder of the preferred stock was the Russian Federal Property Fund.

According to the Federal Law *On Privatization of Federal and Municipal Property* of December 21, 2001 #178-FZ, these preferred stock were converted into common stock. The Russian Federal Property Fund's preferred stock were converted into common stock on October 16, 2002.

(b) Voting rights, privileges and liquidation

All common stock have voting rights. Upon liquidation of the Company all creditors' requests are to be satisfied, property is to be sold through auction and any remaining proceeds should be distributed proportionally between stockholders.

(c) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at the annual stockholders' meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined to by reference to the statutory financial statements of the Parent company. At December 31, 2002 and 2001 the retained earnings, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to \$1,078,193 (unaudited) and \$633,063 (unaudited) respectively, converted into US dollars using the year-end exchange rate. No dividends on common stock were declared in either 2002 or 2001.

12. COST OF SALES

	For the year ended December 31, 2002	For the year ended December 31, 2001
Production cost	950,058	888,947
Depreciation and amortization	146,327	159,688
	<u>1,096,385</u>	<u>1,048,635</u>

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31, 2002	For the year ended December 31, 2001
Taxes other than income tax	33,632	25,297
Selling expenses	32,072	21,999
Employee costs	13,638	11,194
Penalties and fines	96	1,666
Net movement in the allowance for doubtful debts	(1,747)	(15,261)
Other	25,668	23,537
	<u>103,359</u>	<u>68,432</u>

14. INCOME TAX EXPENSE

	For the year ended December 31, 2002	For the year ended December 31, 2001
Current tax expense	133,956	83,692
Deferred tax benefit		
Origination and reversal of temporary differences	(8,271)	(936)
Foreign exchange differences	(976)	(2,581)
Change in tax rate	—	(11,353)
Change in tax loss carry forwards	4,990	6,693
	<u>(4,257)</u>	<u>(8,177)</u>
Total income tax expense	<u>129,699</u>	<u>75,515</u>

The corporate income tax rate was 24% and 35% in 2002 and 2001, respectively. The rate used for measuring deferred tax as at December 31, 2002 and 2001 was 24% (the rate effective from January 1, 2002).

Reconciliation of effective tax rate:

	For the year ended December 31, 2002	For the year ended December 31, 2001
Profit before tax	466,874	163,047
Income tax at applicable tax rate	112,050	57,067
Increase / (decrease) in income tax resulting from:		
Non-deductible expenses and non taxable income	17,649	29,801
Change in tax rate	—	(11,353)
	<u>129,699</u>	<u>75,515</u>

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

14. INCOME TAX EXPENSE (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	As at December 31, 2002	As at December 31, 2001
<i>Deferred tax assets</i>		
Investments	5,332	555
Accounts payables and accrued liabilities	2,812	2,085
Accounts receivable	2,573	—
Other current liabilities	346	—
Other non-current liabilities	541	—
Other current assets	3	999
Inventories	—	30,147
Valuation allowance	(1,830)	(480)
	<u>9,777</u>	<u>33,306</u>
<i>Deferred tax liabilities</i>		
Property, plant and equipment	(18,602)	(38,617)
Inventories	(6,696)	—
Short term loans	(2)	—
Accounts receivable	—	(19,459)
	<u>(25,300)</u>	<u>(58,076)</u>
Net deferred tax liability on temporary differences	(15,523)	(24,770)
Tax loss carry forwards	—	4,990
Total deferred tax	<u>(15,523)</u>	<u>(19,780)</u>

Deferred tax assets have not been recognized in respect of the temporary differences, where it is not probable that future taxable profit will be available against which the Group can utilize the benefit there from.

As at December 31, 2001 the Group had tax loss carry forwards of \$20,791, which were due to expire in 2003. In 2002 the Group fully utilized this tax loss carried forward.

15. EARNINGS PER SHARE

Basic income per share of common stock is calculated by dividing net income by the average number of shares of common stock outstanding during the applicable period.

The calculation of diluted income per share of common stock takes into account the effect of obligations, such as convertible preferred stock, considered to be potentially dilutive.

	Income for the year ended December 31, 2002	Shares 2002	Income for the year ended December 31, 2001	Shares 2001
Net income and shares	338,418	5,985,657	87,532	5,985,241
Preferred stock dividend requirements	—		—	
Income and shares	<u>338,418</u>	<u>5,985,657</u>	<u>87,532</u>	<u>5,985,241</u>
Basic and diluted earnings per share (US dollars)	<u>56.54</u>		<u>14.62</u>	

16. NON-CASH TRANSACTIONS

Management estimates that approximately \$5,000 and \$10,000 of the Group's 2002 and 2001 revenues, respectively, were settled in the form of mutual offset with the Group receiving raw materials and other related production materials for finished goods shipments.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

Notes to the consolidated financial statements
as at and for the years ended December 31, 2002 and 2001
(thousands of US dollars)

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

The carrying amount of cash and cash equivalents, loans given, accounts receivable, amounts due to / from employees, affiliated companies and other related parties, accounts payable and accrued expenses, short term debts approximate fair value.

The fair values of available for sale securities are based on quoted market prices for these or similar instruments.

18. OBLIGATIONS UNDER CAPITAL AND OPERATIONAL LEASES

	<u>Capital leases</u>
Future minimum lease payments:	
2003	3,153
2004	2,043
2005	1,111
2006	594
2007	305
Remainder	156
Total minimum lease payments	<u>7,362</u>
Less: amount representing estimated executory costs, including profit thereon, included in total minimum lease payments	(1,455)
Net minimum lease payments	<u>5,907</u>
Less: amount representing interest (at 19%)	(1,712)
Present value of net minimum lease payments	<u>4,195</u>
Less: current portion	(1,727)
Long-term capital lease obligations	<u>2,468</u>

In 2002 the Group acquired machinery, equipment and vehicles under capital leases with right of acquisition on the expiry of the lease term.

In 2002 \$909 was recognized as interest expense in the consolidated statement of income in respect of these capital leases.

Machinery, equipment and vehicles at year end includes the following amounts in respect of capital leases:

	<u>As at December 31, 2002</u>
Machinery and equipment	1,858
Vehicles	2,902
	4,760
Accumulated depreciation	(160)
Net property, plant and equipment under capital leases	<u>4,600</u>

The Company has incurred expenses in respect of operational leases of \$6,626 and \$3,135 in 2002 and 2001, respectively. The contract expires in 2003.

19. CONCENTRATION OF SIGNIFICANT RISKS

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to unexpected changes in the situation of one or more sales markets. The Group uses executive analysis of the existing and prospective markets.

The Group's exports in monetary terms in 2002 were around 61% (2001: 56%) of the total metal production sales.

The Group has three international traders that account for the majority of its export sales in 2002 in 2001. In 2002, the major dealers Tuscany Intertrade (UK), Steelco Mediterranean Ltd. and Moorfield Commodities Company purchased 55%, 27% and 10% of the Group's export sales, respectively. In 2001, these companies purchased 84%, 6% and 7% of the Group's export sales, respectively.

The Group's major export markets are Asia—32% (2001: 29%), the European Union—26% (2001: 27%), North America—14% (2001: 18%) and other Middle East countries including Turkey—17% (2001: 13%). The Group relies on export sales to generate foreign currency earnings. As the Group exports the majority of its production, it is exposed to global economic and political events.

Insaursl Ltd. accounted for in excess of 10% of the Group's 2002 domestic sales, Metraznotorg Ltd., Procatpostavka Ltd., OJSC AVTOVAZ accounted for in excess of 10% of the Group's domestic sales in 2001. No other individual customer accounted for in excess of 10% of the Group's export or domestic sales during 2002 or 2001.

The majority of the Group's workers are covered by a Trade Union agreement, which is negotiated annually. Significant disagreements with the Trade Union and industrial action have been historically rare and management does not consider disruption caused by labor disputes to be a significant risk to the Group.

20. RELATED PARTY TRANSACTIONS

(a) Sales to and purchases from related parties

During 2002 and 2001 the Group had the following transactions with related parties:

(i) Sales and accounts receivable

Sales to a related party controlled by the Group's management were \$12,821 and \$19,710 for the years ended December 31, 2002 and 2001, respectively. Related accounts receivable equaled \$898 and \$180 as at December 31, 2002 and 2001, respectively.

(ii) Purchases and accounts payable

Purchases of raw materials and services from a related party controlled by Company's management were \$46,003 and \$27,014 for the years ended December 31, 2002 and 2001, respectively. Accounts payable to the related party were \$5,362 and \$362 as at December 31, 2002 and 2001, respectively.

(b) Financing activities

As at December 31, 2001 the Company had an outstanding US dollar loan of \$89,173 to a stockholder, which was settled in 2002 (refer note 9).

In 2001 the Group obtained short-term finance from a related party that is controlled by the Group's management, amounting to \$1,001 of which \$345 was repaid before December 31, 2001. The remaining debt was repaid in 2002.

(c) Transactions with funds under Group control

Total contributions to the pension fund, controlled by the Company's management amounted to \$1,876 and \$1,571 in 2002 and 2001, respectively.

Contributions to the charity fund under trusteeship of the Company were \$5,999 in 2001. There were no such contributions in 2002.

21. COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping actions against the Group

The Group's export trading activities are subject to compliance reviews of importers' regulatory authorities. The Company's exports of rolled steel were considered within several anti-dumping investigation frameworks. The Company has taken steps to address anti-dumping investigations and participates in the settlement of such trade disputes as coordinated through the Russian authorities.

No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from legal action will not significantly affect its financial position or results of operations, and no amount has been accrued in the consolidated financial statements.

(c) Environmental matters

Management is of the opinion that the Group has met the Government's federal and regional requirements concerning environmental matters, and therefore believes that the Group does not have any current material environmental liabilities.

Currently, there is no material legislation in Russia regarding environmental damages or restrictions on the Group's activities as a result of environmental concerns.

The Company was subject to an environmental audit in 2001. As a result, the Company has committed itself to carrying out certain environmental activities and to acquire assets of \$101,000 to decrease environmental pollution. These investments are part of the Company's Technical Re-equipment Program from 2002 to 2005 (refer note 21(e)).

(d) Insurance matters

The Russian insurance industry is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has purchased coverage for buildings, property, plant and equipment, environmental pollution as a result of accidents in workshops and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

Until the Group obtains adequate insurance coverage, there is a risk that uninsured losses could have a certain adverse effect on the Group's operations.

(e) Capital, sale and purchase commitments

In the normal course of business the Group enters into long-term purchase contracts for raw materials and long-term sale contracts. These contracts allow for variations in the quantities and types of goods, as well as for periodic adjustments in prices dependent on prevalent market conditions.

To minimize financial losses resulting from disruption of supplies, the Group, first, creates stocks of inventories and, second, maintains relations with reliable suppliers only.

The Company has been carrying out a Technical Re-equipment Program since 2000. According to this Program, the projected investments from 2003 to 2005 in assets for the main production and environmental programs amount to approximately \$674,000.

21. COMMITMENTS AND CONTINGENCIES (continued)

(f) Social commitments

The Company makes contributions to mandatory and voluntary social programs. The Company's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Company's employees. The Company has transferred certain social operations and assets to local authorities, however, management expects that the Company will continue to fund certain social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(g) Taxation

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation.

(h) Guarantees granted

As of December 31, 2002 and 2001, the Group had issued guarantees to third parties amounting to \$7,649 and \$138, respectively, in respect of borrowings of non-group companies. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees.

**OPEN JOINT STOCK COMPANY
STOILENSKY GOK**

**FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

**AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2003 AND 2002**

(WITH REPORT OF INDEPENDENT AUDITORS)

OJSC Stoilensky GOK

Financial statements

as at and for the years ended December 31, 2003 and 2002

CONTENTS

Report of independent auditors	F-68
Balance sheets	F-69
Statements of income	F-70
Statements of cash flows	F-71
Statements of stockholders' equity and comprehensive loss	F-72
Notes to the financial statements	F-73 – F-84

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REPORT OF INDEPENDENT AUDITORS

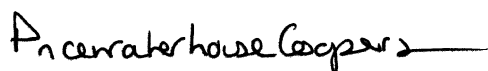
To the Shareholders and Board of Directors of OJSC Stoilensky GOK

We have audited the accompanying balance sheets of OJSC Stoilensky GOK (the "Company") as of December 31, 2003 and 2002, and the related statements of income, cash flows and stockholders' equity and comprehensive loss for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002 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.

As disclosed in Note 19, during 2002 and 2003, the Company had extensive transactions with related parties including its previous controlling shareholders and its management. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would have result from transactions with unrelated parties.




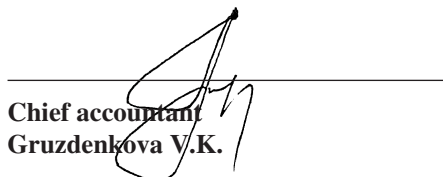
Moscow, Russian Federation
May 16, 2005

OJSC Stoilensky GOK**Balance sheets***(thousands of US dollars)*

	<u>Note</u>	<u>As at December 31, 2003</u>	<u>As at December 31, 2002</u>
ASSETS			
Current assets			
Cash and cash equivalents		2,145	252
Short-term investments, net	5	2,480	2,841
Accounts receivable, net	6	23,160	18,445
Inventories, net	7	8,820	7,813
		<u>36,605</u>	<u>29,351</u>
Non-current assets			
Long-term investments, net	5	685	437
Property, plant and equipment, net	8	45,781	42,970
Deferred tax asset	15	4,171	6,644
		<u>50,637</u>	<u>50,051</u>
Total assets		<u>87,242</u>	<u>79,402</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	9	24,371	20,009
Accounts payable and other liabilities	10	29,812	26,646
Current income tax liability		1,152	833
Deferred tax liability	15	1,040	1,322
		<u>56,375</u>	<u>48,810</u>
Non-current liabilities			
Long-term borrowings	9	1,194	3,146
Other long-term liabilities		4,700	5,162
		<u>5,894</u>	<u>8,308</u>
Total liabilities		<u>62,269</u>	<u>57,118</u>
Stockholders' equity			
Common stock, 1 RUB par value—3,114,331 shares issued and outstanding at December 31, 2003 and 2002	11	2,112	2,112
Share premium		1,141	1,141
Other comprehensive loss		(1,838)	—
Loans given to affiliates	19(e)	(15,005)	(15,005)
Retained earnings		38,563	34,036
		<u>24,973</u>	<u>22,284</u>
Total liabilities and stockholders' equity		<u>87,242</u>	<u>79,402</u>

The financial statements as set out on pages 4 to 20 were approved on May 16, 2005.


 General Director
 Gorshkov A.Y.


 Chief accountant
 Gruzdenkova V.K.

The accompanying notes constitute an integral part of these financial statements

OJSC Stoilensky GOK**Statements of income***(thousands of US dollars, except for per share amounts)*

	<u>Note</u>	<u>For the year ended December 31, 2003</u>	<u>For the year ended December 31, 2002</u>
Sales revenue	12	185,299	153,298
Cost of sales	13	<u>(104,280)</u>	<u>(95,464)</u>
Gross profit		81,019	57,834
Selling, general and administrative expenses	14	<u>(72,726)</u>	<u>(48,934)</u>
Operating income		8,293	8,900
Gain / (loss) on disposals of property, plant and equipment		58	(465)
Gain / (loss) on investments		94	(38)
Net interest expense		(2,339)	(2,320)
Foreign currency exchange gain, net		<u>981</u>	<u>504</u>
Income before income tax		7,087	6,581
Income tax	15	<u>(2,444)</u>	<u>(1,569)</u>
Net income		<u>4,643</u>	<u>5,012</u>
Net income per share (US dollars)			
Basic and diluted	16	1.49	1.61

The accompanying notes constitute an integral part of these financial statements

OJSC Stoilensky GOK

Statements of cash flows

(thousands of US dollars)

	<u>Note</u>	<u>For the year ended December 31, 2003</u>	<u>For the year ended December 31, 2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		4,643	5,012
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion and depreciation		5,873	5,235
(Gain) / loss on disposals of property, plant and equipment . . .		(58)	465
(Gain) / loss on investments		(94)	38
Net unrealized foreign exchange (gains) / losses		(278)	59
Deferred income tax benefit	15	(994)	(548)
Other adjustments to profit		2,264	3,543
Changes in operating assets and liabilities:			
(Increase) / decrease in accounts receivables		(3,909)	3,675
Increase in inventories		(1,377)	(2,363)
(Increase) / decrease in other current assets		(1,204)	3,619
Decrease in accounts payable and other liabilities		(1,530)	(3,703)
Increase in current income tax liability		319	523
Net cash provided by operating activities		3,655	15,555
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		49	354
Purchase and construction of property, plant and equipment . . .		(5,765)	(8,359)
Repayment of loans given	19(e)	—	362
Purchase of long-term investments		(228)	(388)
Purchase of short-term investments		(323)	(2,028)
Proceeds from sale of short-term investments		1,122	—
Net cash used in investing activities		(5,145)	(10,059)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		86,128	54,006
Repayment of borrowings		(85,281)	(44,858)
Proceeds from promissory notes issue		4,035	980
Repayment of promissory notes issue		(1,453)	(15,764)
Dividends to the stockholders		(28)	(144)
Net cash provided by/(used in) financing activities		3,401	(5,780)
Effect of exchange rate changes on cash		(18)	13
Net change in cash and cash equivalents balance		1,893	(271)
Cash and cash equivalents at beginning of the year		252	523
Cash and cash equivalents at end of the year		2,145	252
Supplemental disclosures of cash flow information:			
Income taxes paid		3,119	1,594
Interest paid		2,479	2,320

The accompanying notes constitute an integral part of these financial statements

OJSC Stoilensky GOK

Statements of stockholders' equity and comprehensive loss

(thousands of US dollars)

	Note	Common stock	Share premium	Other comprehensive loss	Loans given to affiliates	Retained earnings	Total stockholders' equity
Balance at January 1, 2002		2,112	1,141	—	(15,367)	29,127	17,013
Net income		—	—	—	—	5,012	5,012
Repayment of loans given to affiliates	19(e)	—	—	—	362	—	362
Dividends to the stockholders	11(b)	—	—	—	—	(103)	(103)
Balance at December 31, 2002 . . .		<u>2,112</u>	<u>1,141</u>	<u>—</u>	<u>(15,005)</u>	<u>34,036</u>	<u>22,284</u>
Deferred income tax effect of the change in functional currency . . .	2	—	—	(3,392)	—	—	(3,392)
Net income		—	—	—	—	4,643	4,643
Cumulative translation adjustment	2	—	—	1,554	—	—	1,554
Dividends to the stockholders	11(b)	—	—	—	—	(116)	(116)
Balance at December 31, 2003 . . .		<u>2,112</u>	<u>1,141</u>	<u>(1,838)</u>	<u>(15,005)</u>	<u>38,563</u>	<u>24,973</u>

The accompanying notes constitute an integral part of these financial statements

OJSC Stoilensky GOK

Notes to the financial statements

(thousands of US dollars)

1 BACKGROUND

Open joint stock company “Stoilensky GOK” (the “Company”) is one of the Russia’s largest iron ore producers. The Company was originally established as a State owned enterprise in 1961 in Stary Oskol (Belgorod region) and was privatized in the form of a joint stock company on November 3, 1992. On April 24, 1998 the Company was registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The company mines ores of the Kursk magnetic anomaly (KMA), Russia’s main iron ore basin. Its iron ore reserves are located at the central part of north-eastern area of KMA. The main product is iron-ore concentrate. This product is sold both in the Russian Federation and abroad.

The Company’s main operations are the Belgorod region (Stary Oskol city) of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the Belgorod regional authorities.

In March 2004, a controlling interest in the Company was purchased by Novolipetsk Iron and Steel Corporation (NLMK), one of the largest vertically integrated iron and steel holdings in the Russian Federation. The Company now operates as part of the NLMK group.

2 BASIS OF PREPARATION

The Company maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”).

Functional and reporting currency

The accounting records of the Company are maintained in Russian rubles and the Company prepares its statutory financial statements and reports in that currency to its stockholders in accordance with the laws of the Russian Federation.

The Company’s functional currency is considered to be Russian ruble. The accompanying financial statements have been prepared using the US dollar as the Company’s reporting currency. The translation into US dollars has been performed in accordance with the provisions of SFAS No. 52, *Foreign currency translation*.

Prior to January 1, 2003, the Russian economy was considered hyperinflationary. In accordance with SFAS No. 52 requirements applicable to hyperinflationary market economics, monetary assets and liabilities originally denominated in US dollars were stated at their original US dollars amounts. Monetary assets and liabilities denominated in other currencies were translated into US dollars using the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities, which were denominated in currencies other than US dollars, were translated into US dollars at the exchange rates in effect as at the date of the transaction. Income and expenses, which were earned or incurred in currencies other than US dollars, were translated into US dollars using a basis that approximates the rate of exchange ruling at the date of the transaction. Gains and losses arising from the translation of assets and liabilities into US dollars were reflected in the statement of income as foreign currency exchange gains and losses.

The Russian economy ceased to be considered hyperinflationary as of January 1, 2003. Accordingly, all monetary and non-monetary assets and liabilities of the Company as well as the related equity balance were translated into Russian rubles at the current exchange rate prevailing at January 1, 2003. This translation established a new functional currency basis for the Company. For periods subsequent to January 1, 2003, the functional currency financial statements (Russian rubles) are translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52. As a result of these translation procedures, a cumulative translation adjustment of \$1,554 which accounts for such translation gains and losses was recorded directly in stockholders’ equity. The deferred income tax effect of

2 BASIS OF PREPARATION (continued)

\$3,392 of the change in functional currency was also recorded directly in stockholders' equity. No cumulative translation adjustment was made for the period during which the Russian economy was considered hyperinflationary.

The Central Bank of the Russian Federation closing rates of exchange at December 31, 2003 and 2002 were 1 US dollar to 29.45 Russian rubles and 1 US dollar to 31.78 Russian rubles, respectively. The annual weighted average exchange rates were 30.69 and 31.35 Russian rubles to 1 US dollar for each of the years ended December 31, 2003 and 2002.

Prior to 1992, the State set the official exchange rate for the Russian Ruble. The Ruble exchange rate in those periods may differ from rates that might have existed under market conditions. For purposes of translating fixed assets acquired prior to 1992 into US dollars, the Company has used the historic exchange rate of 1 US dollar to 0.11 Russian Rubles.

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied by the Company year-on-year.

(a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; property, plant, and equipment valuation allowances; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; and deferred tax assets. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks with maturity of 90 days or less.

(c) Accounts receivable

Receivables are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(d) Value added tax

Value added taxes related to sales and services rendered is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales / purchases and services rendered / used which have not been settled at the balance sheet date (VAT deferred) is recognized in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where allowance has been made for doubtful debts, loss is recorded for the gross amount of the debtor, including VAT.

(e) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

(f) Investments in securities

The Company classifies investments in securities using two categories: held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

All other securities not included in held-to-maturity are classified as available-for-sale. Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive loss in the stockholders' equity until realized.

Investments in non-marketable securities where the Company does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future or under bankruptcy proceedings.

(g) Property, plant and equipment

Resource property, plant and equipment

Mine and mill property, plant and equipment are recorded at cost. The cost of mine and mill properties includes development costs, construction works, including administrative expenses, interest and amortization of financing costs. Mine and mill property is amortized over the life of the mine or license term, which ever is shorter, using the unit-of-production method based on proven and probable reserves.

Other property, plant and equipment

Non-mining and milling property, plant and equipment are recorded at cost. Such assets are depreciated on a straight-line basis over estimated useful lives of the individual assets. The range of estimated useful lives is as follows:

Machinery and equipment	8-15 years
Vehicles	5-12 years

Construction in progress

Costs of exploratory works and constructions to enhance the recovery of minerals are capitalized as assets under construction pending the determinants of the success of such activity.

Property evaluations

Property, plant and equipment, including mineral rights, are assessed for possible impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires long-lived assets to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events that can trigger an assessment for possible impairment include write-down of mineral reserves based on field performance, a significant decrease in market value of an asset, significant change in the extent or use of or physical change in an asset, and a more-likely-than-not expectation that a long-lived asset will be disposed of significantly earlier than the end of its previously estimated useful life. The Company operates one mine and accordingly, its long-lived assets represent one cash generating unit. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. Impaired assets

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

are written down to their fair values, generally determined as their discounted future net before tax cash flows. Estimates of future cash flows are subject to uncertainty, it is reasonably possible that changes could occur which may affect the recoverability of property, plant and equipment.

(h) Asset retirement obligations

In July 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement provides accounting and reporting standards for costs associated with the retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

The Company's land, buildings and equipment are subject to the provisions of SFAS No. 143. Based on the current requirements under the laws of the Russian Federation and various contractual agreements associated with the licenses and the expected life of the reserves, the Company has estimated its discounted obligations related to the retirement of its long-lived assets as immaterial.

(i) Pension and post retirement benefits other than pensions

Mandatory contributions to the Governmental pension scheme are calculated as a percentage of wages and salary costs and are expensed when incurred and included in cost of sales. The cost of providing other immaterial discretionary pension payments and other post-retirement obligations (including constructive) is accrued and charged to the statement of income so as to spread the regular cost over the service lives of employees.

(j) Long-term borrowings

Long-term borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, long-term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of income over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount received and the carrying amount is recognized immediately in the statement of income.

(k) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

(l) 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 temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied 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 when a different tax rate is enacted.

(m) Stockholders' dividends

Dividends are recognized as a liability in the period in which they are declared.

(n) Revenue recognition

Revenue from the sale of goods is recognized in the statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectibility is reasonably assured.

Notes to the financial statements

(thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**(o) Non-cash transactions**

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalent is defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

(p) Recent accounting pronouncements

FASB Statement No. 151, *Inventory Costs, an Amendment of ARB No. 43, Chapter 4*, (FAS No. 151). In November 2004, the FASB issued FAS No. 151 which is effective on January 1, 2006. The standard amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. In addition, the standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company is currently evaluating the impact of this standard.

FASB Statement No. 153, *Exchanges of Non-monetary Assets—An Amendment of APB Opinion No. 29* (FAS No. 153). In December 2004, the FASB issued FAS No. 153, which is effective for asset-exchange transactions beginning July 1, 2005. Under APB No. 29, assets received in certain types of non-monetary exchanges were permitted to be recorded at the carrying value of the assets that were exchanged (i.e., recorded on a carryover basis). As amended by FAS No. 153, assets received in some circumstances will have to be recorded instead at their fair values. In the past, the Company has not engaged in a large number of non-monetary asset exchanges for significant amounts.

4 SEGMENTS

The Company's core activity is the production of iron-ore concentrate. The Company is also involved in other activities, which are not material and do not form separate segments. Therefore, operating segments are not separately disclosed.

The Company carries out activities solely in the Russian Federation and does not form separate geographical segments, as the nature and sources of risks are similar on the territory of the Russian Federation.

5 INVESTMENTS

	As at December 31, 2003 Ownership	As at December 31, 2002 Ownership	As at December 31, 2003	As at December 31, 2002
Long-term non-marketable securities:				
Non-governmental pension fund				
"Promagrofond"	15%	15%	382	354
Belgorodsotsbank promissory notes			213	—
Other securities			90	83
			<u>685</u>	<u>437</u>
Short-term non-marketable securities:				
<i>Held to maturity:</i>				
Belgorodsotsbank promissory notes			337	—
Soinvest promissory notes, 7% interest			2,140	2,000
<i>Available for sale:</i>				
Other securities			3	841
			<u>2,480</u>	<u>2,841</u>

The Belgorodsotsbank promissory notes with a par value of \$550 as at December 31, 2003 are pledged to secure the redemption of the loan received from the State Department of Finance and Fiscal Policy of Belgorod region Administration. Refer to Note 9.

OJSC Stoilensky GOK**Notes to the financial statements***(thousands of US dollars)***6 ACCOUNTS RECEIVABLE**

	As at December 31, 2003	As at December 31, 2002
Trade accounts receivable	18,328	14,031
Taxes receivable	3,483	2,378
Advances given to suppliers	1,635	1,605
Accounts receivable from employees	339	629
Other accounts receivable	648	555
	24,433	19,198
Allowance for doubtful debts	(1,273)	(753)
	23,160	18,445

The Company has a significant concentration of credit risk. At 31 December 2003, outstanding trade balances from TK Eximtrade, Russia, IKM Ferrum Corp. Ltd, Liechtenstein and Technoruda, Russia totaled \$14,536, \$1,752 and zero respectively. At 31 December 2002, the outstanding balances totaled \$1,724, \$1,692 and \$8,975 respectively. Refer to Note 19.

7 INVENTORIES

	As at December 31, 2003	As at December 31, 2002
Raw materials and supplies	5,683	3,255
Work in process	2,421	2,430
Finished goods	853	2,190
	8,957	7,875
Provision for obsolescence	(137)	(62)
	8,820	7,813

8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2003	As at December 31, 2002
Machinery and equipment	32,292	28,711
Mine and mill property	27,030	18,922
Vehicles	24,044	20,443
Construction in progress	7,508	12,195
Other	486	526
	91,360	80,797
Accumulated depletion and depreciation	(45,579)	(37,827)
	45,781	42,970

The Company extracts iron ore from land owned by government authorities. The Company obtains licenses and pays exploration and production taxes to explore and produce from this field. The license expires in 2016, however may be extended at the initiative of the Company provided the Company is in compliance with the terms of the license. Management intends to extend the license for properties expected to produce subsequent to their license expiration date. At 31 December 2003, 1,685 million tons out of 2,084 million tons of reserves are expected to be produced after the expiration of the license.

The Company has estimated its liability for dismantlement and site restoration based on current environmental legislation and their enforcement. Costs and technological factors may be different from those estimated at 31 December 2003, consequently the ultimate liability may differ from the recorded amounts.

OJSC Stoilensky GOK

Notes to the financial statements

(thousands of US dollars)

9 LONG-TERM AND SHORT-TERM BORROWINGS

	<u>Interest rate, %</u>	<u>Due</u>	<u>As at December 31, 2003</u>	<u>As at December 31, 2002</u>
Long-term borrowings				
Ruble denominated debts				
Sberbank Tzentrarno-Chernozemniy branch	19.5	2004	904	3,146
State Department of Finance and Fiscal Policy of Belgorod region Administration	0.1	2004-2006	773	—
The Committee of Finance and Fiscal Policy of Administration of Stary Oskol	0.1	2004-2006	1,086	—
Other long-term loans			—	13
			2,763	3,159
Less: current portion of long-term loans and borrowings			(1,569)	(13)
			1,194	3,146
Short-term borrowings:				
Ruble denominated debts				
Sberbank Starooskolsky branch	19.5 – 13.5		5,772	4,138
Vneshtorgbank Belgorod branch	16.5 – 13.0		2,818	1,982
Impexbank	20.0 – 15.0		2,377	—
Citibank	12.0		2,037	—
Sberbank Tzentrarno-Chernozemniy branch	22.0		—	4,719
Other short-term ruble denominated loans			848	724
Current portion of long-term ruble denominated loans and borrowings			1,569	13
			15,421	11,576
Foreign currency denominated debts				
Raiffeisenbank	Libor + 4.75		6,000	6,000
Citibank	Libor + 4.50		2,950	2,433
			8,950	8,433
			24,371	20,009

Long-term loans and borrowings due for repayment:

	<u>As at December 31, 2003</u>	<u>As at December 31, 2002</u>
2004	—	3,146
2005	665	—
2006	529	—
	1,194	3,146

At December 31, 2003 and 2002, borrowings totalling \$9,052 and \$11,575 respectively are secured by vehicles, machinery and equipment. In addition, further loans and borrowings totalling \$8,818 and \$8,142 are secured by iron-ore concentrate in warehouses and ferrous quartzite reserves. Citibank loans are secured by trade revenues from sales to Eximtrade and Technoruda.

OJSC Stoilensky GOK**Notes to the financial statements***(thousands of US dollars)***10 ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	As at December 31, 2003	As at December 31, 2002
Trade accounts payable	7,418	9,024
Taxes payable other than income tax, including VAT	7,330	6,005
Wages and salaries	7,040	5,172
Promissory notes payable	3,538	2,249
Other accounts payable	4,486	4,196
	<u>29,812</u>	<u>26,646</u>

11 STOCKHOLDERS' EQUITY**(a) Stock**

At December 31, 2003 and 2002, the Company's stock capital comprised of 3,114,331 issued and fully paid common shares with par value of 1 Russian ruble. Stock has been translated at the historic weighted average exchange rate of 1 USD to 1.47 Russian rubles.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at the annual stockholders' meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company. At December 31, 2003 and 2002 the retained earnings, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to \$5,511 and \$7,714, respectively, converted into US dollars using exchange rate at December 31, 2003 and 2002, respectively. The Company paid dividends of \$103 (1.00 Russian ruble per share) based on the results for 2001. The Company paid dividends of \$116 (1.10 Russian rubles per share) based on the results for 2002. In 2004 and 2005 the Company declared dividends of 1.20 and 122 Russian rubles per share based on the results for 2003 and 2004, respectively.

12 SALES REVENUE

	For the year ended December 31, 2003	For the year ended December 31, 2002
Iron ore concentrate	166,293	130,993
Ferrous agglomerative ore	9,558	6,061
Other goods and services	9,448	16,244
	<u>185,299</u>	<u>153,298</u>

As discussed in Note 19, a significant proportion of sales are made to parties affiliated to the previous shareholders of the Company.

13 COST OF SALES

	For the year ended December 31, 2003	For the year ended December 31, 2002
Materials	57,751	50,633
Wages and employee benefits	33,301	28,112
Depletion and depreciation	5,873	5,235
Production taxes and other non-income taxes	4,260	3,367
Other production costs	3,095	8,117
	<u>104,280</u>	<u>95,464</u>

OJSC Stoilensky GOK**Notes to the financial statements***(thousands of US dollars)***14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	For the year ended December 31, 2003	For the year ended December 31, 2002
Employee costs	59,107	34,124
Selling expenses	5,907	5,194
Net movement in the allowance for doubtful debts	1,002	641
Taxes other than income tax	591	3,153
Other expenses	6,119	5,822
	<u>72,726</u>	<u>48,934</u>

Included in Employee costs are compensation paid to four senior managers totaling \$49,410 and \$26,470 for the year ended 31 December 2003 and 2002, of which \$38,566 and \$20,720, respectively, were compensation to senior managers who were also shareholders in the Company—refer to Note 19(f). Subsequent to Novolipetsk Iron and Steel Corporation's (NLMK) acquisition of the Company in 2004, these employees are no longer employed by the Company.

15 INCOME TAX

	For the year ended December 31, 2003	For the year ended December 31, 2002
Current tax expense	3,438	2,117
Deferred tax (benefit) / expense:		
origination and reversal of temporary differences	(994)	(672)
foreign exchange differences	—	124
	<u>(994)</u>	<u>(548)</u>
Total income tax expense	<u>2,444</u>	<u>1,569</u>

The corporate income tax rate in Russia applicable to the Company was 24% in 2003 and 2002.

Reconciliation of income before income tax to income tax expense is as follows:

	For the year ended December 31, 2003	For the year ended December 31, 2002
Income before income tax	7,086	6,581
Income tax at applicable tax rate (24%)	1,701	1,579
Increase / (decrease) in income tax resulting from:		
non-deductible expenses and non-taxable income	743	(10)
Total income tax expense	<u>2,444</u>	<u>1,569</u>

OJSC Stoilensky GOK**Notes to the financial statements***(thousands of US dollars)***15 INCOME TAX (continued)**

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

	<u>As at December 31, 2003</u>	<u>As at December 31, 2002</u>
Deferred tax assets—long-term:		
Property, plant and equipment	2,847	5,681
Investments	506	521
Other long-term liabilities	818	442
	<u>4,171</u>	<u>6,644</u>
Deferred tax liabilities—short-term:		
Accounts receivable	(175)	(201)
Inventories	(335)	(569)
Accounts payable and other liabilities	(530)	(552)
	<u>(1,040)</u>	<u>(1,322)</u>
Deferred tax asset, net	<u><u>3,131</u></u>	<u><u>5,322</u></u>

Deferred tax assets have not been recognized in respect of the temporary differences, where it is not probable that future taxable profit will be available and therefore realization of these tax assets is doubtful.

The deferred tax effect of establishing a new functional currency basis (Note 2) is recorded within the cumulative translation adjustment in other comprehensive loss.

16 EARNINGS PER SHARE

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period. The Company has no dilutive securities.

	<u>For the year ended December 31, 2003</u>	<u>For the year ended December 31, 2002</u>
Net income	4,643	5,012
Number of shares	3,114,331	3,114,331
Basic and diluted net income per share (US dollars)	<u><u>1.49</u></u>	<u><u>1.61</u></u>

17 NON-CASH TRANSACTIONS

Approximately \$2,879 and \$4,566 of the Company's 2003 and 2002 revenues, respectively, were settled in the form of mutual offset, i.e. amounts receivable for goods dispatched were offset against the liability to pay for raw materials supplied.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

18 RISKS AND UNCERTAINTIES**(a) Operating environment of the Company**

The Russian Federation economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

18 RISKS AND UNCERTAINTIES (continued)

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

(b) Convertibility of Russian ruble

Exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Company is required to convert 25% (10% from December 2004) of its hard currency earnings into Russian rubles. Future movements in the exchange rate between the Russian ruble and the US dollar will affect the carrying value of the Company's Russian ruble denominated monetary assets and liabilities. Such movements may also affect the Company's ability to realize non-monetary assets presented in US dollars in these financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such 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.

19 RELATED PARTY TRANSACTIONS

Balances as at December 31, 2003 and 2002 and transactions for the years ended December 31, 2003 and 2002 with related parties of the Company consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to parties affiliated to the Company's previous shareholders totaled \$178,073 and \$146,284 for the years ended December 31, 2003 and 2002, respectively. Related accounts receivable were \$16,545 and \$12,384 at December 31, 2003 and 2002, respectively (refer to Note 6 and Note 12).

Purchases

Purchases of raw materials and transport services from the related parties controlled by the Company's previous shareholders were \$24,919 and \$13,261 for the years ended December 31, 2003 and 2002, respectively. Accounts payable to the related parties were \$970 and \$678 as at December 31, 2003 and 2002, respectively.

(b) Financial transactions

The Company has outstanding short-term loans payable to Impexbank of \$2,377 and zero and to Belgorodsotsbank of zero and \$724 as at December 31, 2003 and 2002, respectively. Both banks are affiliated to the Company's previous shareholders.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund amounted to \$2,053 and zero in 2003 and 2002, respectively. The Company has no long-term commitments to provide funding, guarantees, or other support to the fund. The fund is affiliated to the Company's previous shareholders.

(d) Financial guarantees

As of December 31, 2003 and 2002, the Company had issued guarantees to parties affiliated to the Company's previous shareholders amounting to \$3,802 and \$12,504, respectively, in respect of borrowings received by related parties. No amount has been accrued in the financial statements for the Company's obligation under these guarantees. Subsequent to December 31, 2003, the liabilities were settled by the related parties and the guarantees terminated.

19 RELATED PARTY TRANSACTIONS (continued)

(e) Loans given

In 2000 and 2001, the Company provided loans to parties affiliated to the previous shareholders. The loans bear zero interest and have no fixed repayment date. These loans were recorded as a deduction from shareholders retained earnings upon granting the loan. During 2002, \$362 was repaid.

(f) Payments to shareholders

The Company paid to members of the Board of Directors, who were also shareholders in the Company, salary and bonuses of approximately \$38,566 and \$20,720 for the years ended 31 December 2003 and 2002, respectively. The salary and bonuses of members of the Board of Directors is subject to approval by the General Meeting of Shareholders. Refer to Note 14.

20 COMMITMENTS AND CONTINGENCIES

(a) Litigation

The Company, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Company believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the financial statements.

(b) Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Company has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(c) Social commitments

The Company makes contributions to mandatory and voluntary social programs. The Company's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Company's employees. The Company has transferred certain social operations and assets to local authorities, however, management expects that the Company will continue to fund certain social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(d) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2003 and 2002, management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued in these financial statements.

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