



**HOLDGROVE LIMITED**  
*(incorporated with limited liability under  
the laws of Cyprus)*

**U.S.\$475,000,000**

**1.00 per cent. Guaranteed Convertible Bonds due 2017**

**with a limited guarantee by**

**OAO SEVERSTAL**

*(an open joint stock company organised under the laws of the Russian Federation)*

The issue price of the U.S.\$475,000,000 1.00 per cent. Guaranteed Convertible Bonds due 2017 (the “**Bonds**”) of Holdgrove Limited (the “**Issuer**”) is 100 per cent. of their principal amount.

The Bonds bear interest from 24 September 2012 (the “**Closing Date**”) at the rate of 1.00 per cent. per annum payable semi-annually in arrear on 24 March and 24 September each year commencing on 24 March 2013. Payments on the Bonds will be made in U.S. dollars without deduction for or on account of taxes imposed or levied by Cyprus or the Russian Federation to the extent described under “*Terms and Conditions of the Bonds—Taxation*”. OAO Severstal (the “**Guarantor**”, the “**Company**” or “**Severstal**”) will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Bonds; however, the Guarantor’s liability in respect of such guarantee will not in any case exceed U.S.\$ 1,350,000,000 in aggregate, see “*Terms and Conditions of the Bonds – Status and Guarantee*” and “*Risk Factors – Holders of the Bonds may be unable to recover losses beyond the limited amount of the Guarantee*”.

Unless previously redeemed or converted or purchased and cancelled, each Bond will be convertible, at the option of the holder, into global depositary receipts, which have an ISIN number of US8181503025 and each representing one ordinary share of the Company (the “**GDRs**”), at any time on or after 5 November 2012 and until the close of business on (i) the date falling seven dealing days prior to 24 September 2017, unless redemption arises earlier or (ii) if the Bonds are called for redemption prior to 24 September 2017, the date falling seven dealing days prior to the date fixed for redemption. Each GDR currently represents one Share (as defined in “*Terms and Conditions of the Bonds*”). The initial conversion price is U.S.\$19.08 per GDR. The conversion price is subject to adjustment in certain circumstances as set out herein. See “*Terms and Conditions of the Bonds – Conversion*”.

Unless previously redeemed or converted or purchased and cancelled, the Bonds will be redeemed at their principal amount on 24 September 2017. The Bonds are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Cyprus or the Russian Federation. However, in such circumstances, each holder of Bonds will have the right to elect that its Bond(s) shall not be redeemed, with the effect set out herein. The Bonds may also be redeemed at the option of the Issuer in whole at their principal amount in certain circumstances set out herein. In addition, the holder of a Bond may, by the exercise of the relevant option, require the Issuer to redeem such Bond at its principal amount upon the occurrence of certain events set out herein. See “*Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation*”.

Applications have been made to the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Bonds to be admitted to the official list of the UK Listing Authority and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Bonds to be admitted to trading on or about 31 December 2012 on the London Stock Exchange’s Professional Securities Market (the “**PSM**”). The PSM is not a regulated market under Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets in Financial Instruments.

The Bonds, the Guarantee (as defined herein), the GDRs and the Shares have not been, and will not be, registered under the United States Securities Act of 1933 (the “**Securities Act**”) and are subject to United States tax law requirements. The Bonds have been offered outside the United States in accordance with Regulation S under the Securities Act (“**Regulation S**”), and the Bonds, the Guarantee, the GDRs and the Shares, may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bonds have been assigned a preliminary rating of B++ by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”), which is registered with the European Union in accordance with EU Regulation No 1060/2009 on credit rating agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the marketability of the Bonds or any market price. Any change in the credit ratings of the Bonds or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the Bonds.

The Bonds are in registered form in the denomination of U.S.\$200,000. The Bonds may be held and transferred in the principal amount of U.S.\$ 200,000 and integral multiples thereof. The Bonds are represented by a global registered bond certificate (the “**Global Bond Certificate**”) registered in the name a common nominee for, and deposited with, the common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme*, Luxembourg (“**Clearstream Luxembourg**”). Individual bond certificates (“**Individual Bond Certificates**”) evidencing holdings of Bonds will only be available in certain limited circumstances. See “*Summary of Provisions relating to the Bonds in Global Form*”.

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## LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer's and Guarantor's presence outside the United Kingdom and the United States may limit your legal recourse against the Issuer and the Guarantor. The Issuer is a limited private company incorporated under the laws of Cyprus and the Guarantor is incorporated under the laws of the Russian Federation. The Issuer's and the Guarantor's directors and executive officers named in this Prospectus reside outside the United Kingdom and the United States. All or a substantial portion of the Guarantor's assets and the assets of the Guarantor's officers and directors are also located principally in Russia. As a result, it may not be possible for the Trustee, acting on behalf of Bondholders or, in certain circumstances, a Bondholder, to:

- effect service of process within the United Kingdom or the United States on the Issuer or the Guarantor or on the Issuer's or the Guarantor's officers and directors named in this Prospectus; or
- obtain or enforce English or U.S. court judgments against the Issuer, the Guarantor, the Issuer's or Guarantor's officers and directors on any basis, including actions under the civil liability provisions of English law or U.S. securities laws.

Under the terms of the Trust Deed and the Guarantee, the Issuer and the Guarantor will appoint an agent for service of process in London, England, for claims under the Trust Deed and the Guarantee. It is possible that a Russian court will not recognize this appointment. The Issuer and the Guarantor will not appoint an agent for service of process in the United States. It may be difficult for the Trustee, acting on behalf of Bondholders, to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or United States, liabilities predicated upon English law or U.S. securities laws. In addition, judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for the 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 of the Russian Federation providing for the mutual recognition and enforcement of foreign court judgments is in effect. No such treaty exists between the United States and the Russian Federation, or between the United Kingdom and the Russian Federation, for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, according to recent trends in Russian court practice, a foreign judgment can be recognized and enforced in the Russian Federation based on the principles of reciprocity and international comity, provided, however, that there is a bilateral or multilateral treaty to which the Russian Federation and the relevant foreign country are parties. Currently there exist at least two cases in which Russian courts recognized and enforced the foreign court judgments based on such principals (an English court judgment in one instance and a Dutch court judgment in another instance). However, in the absence of established court practices, it is difficult to predict whether a Russian court will be inclined in any particular case to recognize and enforce an English court judgment on these grounds. These limitations may deprive the Trustee of effective legal recourse for claims related to your investment in the Bonds.

The Bonds, the Guarantee and the Trust Deed are governed by the laws of England and the Issuer has agreed in the Trust Deed and the Guarantor has agreed in the Guarantee that disputes arising thereunder and under the Bonds are subject to arbitration in accordance with the Rules of Arbitration of the London Court of International Arbitration, also known as LCIA, with the seat of any such arbitration in London, England. See "*Terms and Conditions of the Bonds—Condition 23. Governing Law and Consent to Enforcement*". Cyprus and the Russian Federation are both parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "New York Convention"). Consequently, an arbitral award from an arbitral tribunal in the United Kingdom, or the United States would generally be recognized and enforced in the Russian Federation on the basis of the rules of the New York Convention and the enforcement in Cyprus of an arbitral award rendered in the United Kingdom or the United States will be subject to the provisions of the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the limited experience of Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favor of foreign investors; and
- the inability of Russian courts to enforce such orders.

See “*Risk Factors—Risks Factors Relating to Russia—Risks Relating to the Russian Legal System and Russian Legislation—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity*”.

Russian courts generally only recognize foreign court judgments or arbitral awards pursuant to bilateral or multilateral treaty arrangements. The possible need to re-litigate on the merits in the Russian Federation a court judgment obtained elsewhere may significantly delay the enforcement of such judgment. Under current Russian law, certain amounts may be payable upon the initiation of any action or proceeding related to the Bonds, the Guarantee or the Trust Deed in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

## IMPORTANT NOTICES

These Listing Particulars comprise listing particulars as required by the Listing Rules made under Section 74 of the Financial Services and Markets Act 2000 (the “**Listing Rules**”) by the UK Listing Authority for the purpose of giving information with regard to the Issuer and the Company and its consolidated subsidiaries taken as a whole (the “**Group**”), the Bonds and the GDRs. Each of the Issuer and the Guarantor accepts responsibility for the information contained in these Listing Particulars and declares that, having taken all reasonable care to ensure that such is the case, the information contained in these Listing Particulars to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Market data used in these Listing Particulars, as well as certain statistics, including statistics in respect of product sales by volume of third parties and market share, under the captions “*Risk Factors*”, “*Description of the Guarantor*”, have been extracted from official and industry sources and other third party sources that the Company believes to be reliable, such as the following:

- *AME Group*. The AME Group (*AME*) is a global firm of independent economists in the metal and mineral industries with research offices in Australia and affiliations in North America, South America, Africa and China.
- *CDU TEK*. Federal State Unitary Enterprise “Central Dispatching Department of Fuel and Energy Complex”.
- *IMC Group Consulting Ltd*. IMC Group Consulting Ltd (*IMC*) is an international consultancy and offers a broad spectrum of services in the environmental, mining, minerals, engineering and energy industries worldwide. IMC’s headquarters are in Icon Business Centers, New Lake Drive, Sherwood Park, Nottingham, NG15 0DT, UK. The staff of IMC consists of engineers, accountants, economists and geologists with extensive experience in the metals and mining industries.
- *IMF*. The International Monetary Fund.
- *Rosstat*. The Federal State Statistics Service of the Russian Federation.
- *RudProm*. RudProm is an agency that collates statistics about iron ore producers in the former Soviet Union.
- *SRK Consulting*. SRK Consulting provides a range of consulting services to the resource industry. SRK Consulting’s business address is 5th Floor, Churchill House, 17 Churchill Way, Cardiff CF10 2HH, United Kingdom. SRK Consulting employs over 70 full time technical specialists providing experienced support for all aspects of the natural resource industry.
- *Visiongain Ltd*. Visiongain Ltd. (*Visiongain*) is an independent business information provider for the Telecoms, Pharmaceutical, Defence, Energy and Metals industries.
- *worldsteel*. The World Steel Association (*worldsteel*) is one of the largest industry associations in the world, representing approximately 180 steel producers, national and regional steel industry associations, and steel research institutes. worldsteel produces annual reports on the global steel industry.

Where information in these Listing Particulars has been sourced from third parties including in respect of information concerning the Company’s competitors, this information has been accurately reproduced, and as far as the Company and the Issuer are aware and are able to ascertain from the information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers. The Company and the Issuer have accurately reproduced such information and, as far as the Company and the Issuer are aware and are able to ascertain from information published by such third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

In addition, some of the information contained in these Listing Particulars has been derived from official data of Russian government agencies and the Central Bank of the Russian Federation (CBR). The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of more developed countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in these Listing Particulars must,

therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The Issuer and the Guarantor accept responsibility for accurately reproducing this information and, as far as the Issuer and the Guarantor are aware and are able to ascertain from information published by such sources, no facts have been omitted which would render this reproduced information inaccurate or misleading.

These Listing Particulars are to be read and construed in conjunction with any documents which are deemed to be incorporated herein by reference. See “*Information Incorporated by Reference*”. These Listing Particulars should be read and construed on the basis that such information is incorporated in and forms part of these Listing Particulars.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor, the Bonds or the GDRs other than as contained in these Listing Particulars or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Lead Managers named under “*Subscription and Sale*” below (the “**Lead Managers**”).

Neither the Lead Managers nor any of their respective affiliates have authorised the whole or any part of these Listing Particulars and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in these Listing Particulars.

Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of these Listing Particulars.

These Listing Particulars do not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds.

These Listing Particulars or the information contained herein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in these Listing Particulars is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Article 51.2 of the Federal Law no. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Russian QIs**”) and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Bonds and/or the GDRs have not been and will not be registered in Russia and are not intended for “placement” or “circulation” in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The distribution of these Listing Particulars and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars come are required by the Issuer and the Guarantor to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of these Listing Particulars and other offering material relating to the Bonds, see “*Subscription and Sale*”.

In particular, the Bonds, the Guarantee, the GDRs and the Shares have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Bonds, the Guarantee, the GDRs and the Shares may not be offered, sold or delivered within the United States or to U.S. persons.

In these Listing Particulars, unless otherwise specified, references to “**RUR**”, “**RUB**”, “**roubles**” or “**rubles**” are to Russian rubles and references to “**US\$**”, “**US dollars**” or “**dollars**” are to United States dollars.

## INFORMATION INCORPORATED BY REFERENCE

These Listing Particulars should be read and construed in conjunction with the following information:

- (i) The sections listed below of the Base Prospectus relating to the U.S.\$3,000,000,000 Programme for the Issuance of Loan Participation Notes, published by Steel Capital S.A., dated 5 October 2012 (the “**Eurobond Prospectus**”), which was previously approved by the Financial Services Authority:
  - a. Information about the operations and management of the Guarantor set out on pages 130-183 (“*Business*”), pages 184-196 (“*Management*”), and pages 198-200 (“*Related Party Transactions*”);
  - b. Financial statements of the Guarantor, including the Independent Auditor’s Reports, set out on pages F22-F107, Consolidated Financial Statements of OAO Severstal and its subsidiaries prepared in accordance with International Financial Reporting Standards as of 31 December 2011, 2010 and 2009 and for each of the years in the three year period ended 31 December 2011; and
- (ii) The Consolidated Interim Condensed Financial Statements of the Guarantor (unaudited), including the Independent Auditor’s Report on review, prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as of and for the nine month period ended 30 September 2012 (the “**Interim Financial Statements**”), which can be obtained on the Company’s website at [www.severstal.com](http://www.severstal.com). Other than as specified above, no information available on the Company’s website is incorporated by reference in these Listing Particulars.

The information set out above shall be deemed to be incorporated in, and to form part of, these Listing Particulars *provided however* that any statement contained in any document incorporated by reference in, and forming part of, these Listing Particulars shall be deemed to be modified or superseded for the purpose of these Listing Particulars to the extent that a statement contained herein modifies or supersedes such statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of these Listing Particulars. The non-incorporated parts of such documents set out above are either not relevant for investors or are covered elsewhere in these Listing Particulars. To the extent that any document or information incorporated by reference or attached to these Listing Particulars itself incorporates any information by reference, either expressly or impliedly, such information will not form part of these Listing Particulars for the purposes of the Prospectus Rules, except where such information or documents are stated within these Listing Particulars as specifically being incorporated by reference or where these Listing Particulars are specifically defined as including such information.

The Eurobond Prospectus and the Interim Financial Statements will be made available, free of charge, during usual business hours at the specified offices of the Principal Agent.

## **RISK FACTORS**

*Prospective investors should consider carefully the risks set forth below and the other information contained in these Listing Particulars prior to making any investment decision with respect to the Bonds. Each of the risks highlighted below could adversely affect the trading price of the Bonds or the Ordinary Shares or the rights of investors under the Bonds or the Ordinary Shares and, as a result, investors could lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Issuer and the Guarantor face. Each of the Issuer and the Guarantor has described only those risks relating to its operations that it considers to be material. There may be additional risks that they currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above.*

*Prospective investors should read the entire Listing Particulars, together with the documents incorporated by reference herein. Words and expressions defined in the "Terms and Conditions of the Bonds" below or elsewhere in these Listing Particulars have the same meanings in this section.*

*Investing in the Bonds involves certain risks. Prospective investors should consider, among other things, the following risks which may affect the Issuer's and/or the Guarantor's ability to fulfil their respective obligations under the Bonds:*

### **RISK FACTORS RELATING TO THE GROUP AND THE STEEL AND MINING INDUSTRIES**

#### ***The Group's business is dependent on the global economic environment***

The second half of 2009 through 2010 was characterised by a number of positive developments in the global markets, as key emerging and developing economies demonstrated strong demand for raw materials products supported by government stimulus initiatives. This was coupled with general restocking in the steel market and growth of steel consumption in the US market. In 2011, the world economy continued to demonstrate an overall upward tendency. According to the International Monetary Fund (IMF), in 2011 global GDP increased by 3.8 percent, which was 0.5 percent lower than expected previously, and in 2012, the IMF forecasts global GDP growth to be 3.3 percent.

In the second half of 2011, however, the global steel market witnessed falling demand, primarily driven by a deceleration in Chinese steel consumption and production growth. The deceleration was a result of the Chinese property market cooling down followed by credit tightening and Chinese authorities' actions aimed at regulating the property markets. As a result, international raw material prices significantly decreased in the fourth quarter of 2011, as China is the major buyer on the seaborne iron ore market. Overall, however, year average raw material prices saw a solid growth in 2011. Sovereign debt tensions in the Eurozone presented the most important risk in 2011 because Europe is the Group's core export market and presently continue to remain a risk. Economic growth remains inadequate for long term stability. The risk of Greece's exit from the Eurozone could lead to negative effects for the global economy, and, in particular, the financial, automotive and real estate sectors. Consequently, in the first half of 2012, Eurozone sovereign debt tensions and a soft landing in China represented the main reasons for the deteriorating outlook for the rest of 2012. The continued sovereign debt crisis can negatively affect steel demand.

According to the Russian Federal State Statistics Service (*Rosstat*), Russia's GDP in 2011 increased by 4.3 percent year on year. The recovery in 2011 had a significant positive impact on both domestic market pricing and demand for steel products, iron ore and coking coal. As worldsteel reported, in 2011, Russian domestic steel demand increased by 13.8 percent year on year to 40.6 million tonnes, exceeding the pre crisis level. The above factors, in turn had a significant positive impact on the Group's 2011 financial results. According to estimates from the Russian Ministry of Economic Development, in the nine months of 2012, Russia's GDP increased by 3.8 percent year on year, industrial production rose by 2.5 percent year on year and the growth of total fixed asset investments was 7.2 percent. The European Bank for Reconstruction and Development reduced their forecasts for Russia's GDP in 2012 from 4.2 to 3.1 percent due to the escalation of the financial crisis in the Eurozone, the decline of raw material prices and the decrease in investments in risk regions. Worldsteel forecasts that Russian steel consumption will continue to grow in 2012 but with a less than expected growth rate (about 4 percent). Steel consumption growth in the domestic market will be driven by the automotive, machinery and construction sectors.



Nevertheless, the global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation and continuing high levels of unemployment. A restructuring of sovereign debt issued by one or more Eurozone member states or any impact on global or Russian financial markets resulting from the ongoing sovereign debt crisis affecting certain Eurozone member states could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Uncertainty created by the possibility of a deterioration of the financial markets could make it more difficult for the Group to fund its capital and liquidity requirements. There is a risk of a possible cyclical downturn in the Chinese economy and a stagnation of European and US economies, which would result in a global economic downturn and impact all industries. If global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The steel and mining industries are cyclical, which may result in adverse fluctuations in the demand for and the prices of the Group's products***

The industries in which a large proportion of the Group's customers operate, such as the automotive, construction and oil and gas industries, are cyclical in nature, which can result in adverse fluctuations in the demand for and price of steel products. Demand for the raw materials necessary for the production of steel products, such as iron ore and coal, is generally correlated with the demand for steel products. Particular economic and market factors may also have a significant effect on certain parts of the Group's operations, such as an economic downturn in the United States, Europe or China leading to a decrease in production by automotive manufacturers, resulting in a decrease in demand for the Group's automotive flat steel products. Furthermore, the global economic downturn resulted in a decline in demand for and prices of steel and iron ore products. Although prices rose significantly in 2010 and in the first half of 2011 in response to the start of the global recovery, steel markets began a downward trend in the second half of 2011 as a result of the worsening of the sovereign debt crisis in Europe that, in turn, led to a slowing global industrial production and reduced demand. Adverse fluctuations in the demand for the Group's products or the supply of competing products may result in overproduction or underproduction, increased costs or general uncertainty in the industry, any of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Any significant change in prices or supply of raw materials may cause the Group's financial results to vary, which could have a material adverse effect on its results of operations***

The Group requires substantial amounts of raw materials in the steel production process, in particular coal and iron ore. Although the Russian Steel Division has a secure supply of iron ore and coal from Severstal Resources and certain Severstal International operations have secure iron ore supply through long term contracts, the availability of coal, iron ore and/or slabs for Severstal International, and the availability of other necessary raw materials such as scrap may be negatively affected by a number of factors largely beyond the control of the Group, including interruptions in production by suppliers, supplier allocation to other purchasers, price fluctuations and transport costs. In addition, the Group's operations require substantial amounts of other raw materials, including various types of limestone, alloys, refractories, oxygen, fuel and gas, the price and availability of which are also subject to market conditions. The Group may not be able to adjust its prices to recover the costs of significant increases in the prices of such raw materials. Any significant change in the prices or supply of raw materials could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group will require a significant amount of cash to fund its capital expenditure programme. If the Group is unable to generate this cash through operations or external sources, this programme may not be completed on schedule or at all***

Steel production and mining are capital intensive businesses. In particular, the Group has undertaken a capital expenditure programme focused on the modernisation and development of its existing steel production and mining facilities. The Group's capital expenditure programme was reviewed in 2012 and is scheduled to run through 2016, involving the expenditure of approximately US\$6,357.5 million (excluding maintenance) over that period. The Group had total capital expenditures of US\$1,138.6 million in 2010 and US\$1,776.8 million in 2011, excluding the Group's discontinued operations of Lucchini SpA and its subsidiaries (*Lucchini*), Severstal Sparrows Point,

Severstal Warren, Severstal Wheeling, MSC and Nordgold. See “Eurobond Prospectus—Business—Investment in Modernisation and Advanced Technological Processes” incorporated by reference herein. The Group plans to rely on cash generated from its operations, and, to a lesser extent, external financing, to provide the capital needed for the capital expenditure programme. However, there can be no assurance that the Group will be able to generate adequate cash from operations or that external financing, if necessary, will be available on reasonable terms. As a consequence, the Group may be unable to fund its current capital expenditures and/or any potential capital expenditures that may be required to finance its future projects or acquisitions.

In addition, capital expenditure programmes are subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion or delivery, cost overruns and defects in design or construction, which may require additional cash investment. For example, the construction of the production facilities at Severstal Columbus in the United States in 2007 experienced significant cost overruns as a result of higher than expected construction costs. Further, the Group’s capital expenditure programme includes plans to acquire significant amounts of new equipment, including more advanced technologies. While such new production equipment and technologies are aimed at increasing the operational performance of the Group’s facilities, there can be no assurance that the equipment will meet its intended production targets on a timely basis, or at all, the result of which could be reduced production, delays or additional costs. Further, to finance the programme, the Group may incur a substantial amount of additional indebtedness, the interest and principal repayments on which may be a significant drain on the cash flows of the Group. A failure or delay of the Group’s capital expenditure programme or the significant increases in the financing costs that may be incurred to fund the programme could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group has grown rapidly and intends to pursue opportunities to grow its operations, including through further acquisitions, but there can be no assurance that the Group will be able to successfully integrate such acquired companies or identify suitable acquisition targets***

In recent years, the Group has increased its ownership interests in a number of companies and acquired other companies, businesses and production assets, in particular the acquisition of a number of mining operations by Severstal Resources. The Group may consider future acquisitions of assets or companies that the Group believes are aligned with its corporate strategy and financial targets and offer significant potential synergies. In particular, the Group considers growth opportunities in India, Africa, Brazil and other emerging markets. The Group’s approach towards M&A transactions is cautious and prudent as the Group prioritises its objective of maintaining financial stability amid high volatility in commodity and financial markets. The Group is not considering any sizeable cash based M&A in the foreseeable future.

The success of past, current and future acquisitions will depend on the Group’s ability to manage the assimilation of the acquired assets or companies into its operations despite the inherent difficulties, such as existing operational inefficiencies, cultural differences, redundancies of personnel, incompatibility of equipment and information technology, production failures or delays, loss of significant customers, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of the Group’s own business, the assumption of liabilities relating to the acquired assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, poor records or internal controls and difficulty in establishing immediate control over cash flows. Furthermore, there can be no assurance that the Group will be able to achieve the target synergies in its operations with recent or planned acquisitions.

Additionally, the value of any business the Group acquires or invests in may be lower than the amount that the Group pays for it, which, for example, could be related to a decline in the position of that business in the market or markets where it operates or to a decline in the market generally. Developed markets, such as Western Europe and the United States, may offer lower margins, as a general matter, compared to Russia and the CIS. The Group may not be able to identify suitable acquisition targets, and future acquisitions may not be available to the Group on terms as favourable as in the past. The Group may in the future face significant competition for potential acquisitions. When making acquisitions it may not be possible for the Group to conduct a detailed investigation of the nature of the assets being acquired due to, for example, time constraints in making the acquisition decision and other factors. The Group may also become responsible for additional liabilities or

obligations not foreseen by the Group at the time of an acquisition, including in particular any financial liabilities entered into by previous management prior to completion.

Any or all of these difficulties, if they materialise, could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group may experience equipment failure or other unanticipated events, which may result in significant interruption in manufacturing processes, production curtailment and shutdowns***

The Group's manufacturing processes depend on critical pieces of steel making and mining equipment, such as furnaces, continuous casters and rolling equipment, and electrical equipment, such as transformers, underground equipment, excavators, trucks and beneficiation equipment. This equipment may, on occasion, be out of service as a result of malfunction or defect. In addition, the Group's facilities are subject to the risk of damage due to unanticipated events, such as fires, explosions or adverse weather conditions. In the event of equipment failure or damage to its facilities, the Group may experience loss of revenues or customers due to material plant shutdowns or periods of reduced production and may require large capital expenditures to repair or replace faulty machinery or to repair damaged facilities, and if the equipment failure or damage to facilities extends to injuries to employees or has an environmental impact, other costs or liabilities arising out of those circumstances. For example, in 2008, there was an explosion at one of Severstal International's blast furnaces (blast furnace "B"), which severely damaged the furnace. The Group maintains property and business interruption insurance customary for businesses in the steel industry, nonetheless, any loss of revenues or customers or large unexpected capital expenditures resulting from equipment failure or other unanticipated events could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group's mining operations are subject to hazards and risks that could lead to unexpected production delays, increased costs, damage to property or injury or death to persons***

The Group's mining operations include open pit and underground mining, both of which involve significant hazards and risks. Hazards associated with the Group's open pit mining operations include flooding of the open pit, collapses of the open pit wall, accidents related to the operation of large open pit mining and rock transportation equipment, accidents related to the preparation and ignition of large scale open pit blasting operations, production disruptions due to weather and hazards related to the disposal of mineralised wastewater, such as groundwater and waterway contamination. Hazards associated with the Group's 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 and removing and processing material from an underground mine. If any of these hazards or accidents results in significant injury to employees and damage to equipment or other property, the Group may experience unexpected production delays, increased production costs, and increased capital expenditures to repair or replace equipment or property, as well as claims from affected employees and environmental and other authorities for any alleged breaches of applicable laws or regulations. For example, in 2007, there was an explosion and fire at the Vorktaugol mining complex that resulted in ten casualties and the suspension of mining (see "Eurobond Prospectus—Business—Severstal Resources—Health, Safety and Environment" incorporated by reference herein). Any such disruptions to mining, delays and costs could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group's stated mineral reserves and resources are only an estimate based on a range of assumptions and there can be no assurance that the anticipated tonnage or grades can be achieved***

The Group's estimates of its iron ore and coal reserves and resources contained in these Listing Particulars are calculated by reference to estimates provided by IMC Consulting Ltd in its report dated June 2006, and for Putu by SRK Consulting report dated August 2011 prepared in accordance with JORC reporting standards. Such estimates were based on interpretations of geological data obtained from sampling techniques and projected rates of production. Sampling techniques and projections are inherently uncertain and variances in reserve and resource estimates under different methodologies may be difficult to determine and evaluate. In addition, a substantial amount of time is required to bring reserves and resources into the production phase given that construction might last up to 4 to 5 years after the feasibility report. If the Group's actual production of iron ore and coal in the future is significantly less than the Group's planned production based on these estimates of its reserves,

the Group may not be able to supply iron ore and coal to its steel operations at an economically feasible price or at all, which would have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***An increase in existing trade barriers or the imposition of new trade barriers in the Group's principal export markets could cause a significant decrease in the demand for its products in those markets***

There are currently few trade restrictions on the principal export markets of the Group's Russian operations including in the European Union and the United States.

The Russian Federation acceded to the World Trade Organisation (the *WTO*) on 22 August 2012. The current agreement on trade in certain steel products between the Europe and the Russian Federation stipulates that in the event that the Russian Federation accedes to the WTO before the expiry of the agreement, the agreement will be terminated and, as a consequence, any steel product quantity limits will be abolished as of the date of accession. Therefore beginning from 23 August 2012, there are no quantitative restrictions against import of certain steel products originating from the Russian Federation into Europe.

Despite Russia's accession to the WTO, the risk of new trade restrictions in the EU against Russian steel producers persists in the long term.

In the US market, there are two suspension agreements with regards to the import of hot rolled plates and hot rolled coils and thin sheets. The agreements restrict imports of these products from the Russian Federation but allowing the Group's Russian operations to have access to the US market. The suspension agreement with regard to the import of hot rolled coils and thin sheets is currently under revision initiated by the US Department of Commerce. While it is not expected that the agreement will be terminated, there is a risk that by toughening its conditions it could restrict the Russian import of hot rolled coils and thin sheets into the US market to some extent.

There are no other significant restrictions on the Group's principal export markets.

Trade barriers affect the demand for the Group's products by effectively increasing the prices for those products compared to domestically available products. An increase in existing trade barriers, or the imposition of new trade barriers, could cause a significant decrease in the demand for the Group's products in its principal export markets, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Russian Government may impose export tariffs on Russian steel and mining producers, which could adversely affect the demand for its products***

Historically, the Russian Government has considered adopting export tariffs on certain steel and mining products, potentially including products produced by the Group. Certain of the Group's major customers, as well as other major consumers of steel products, have presented, and may in the future present, to the Russian Government initiatives to introduce export duties in order to affect the pricing of steel and mining products in the domestic market. No decision has been made to this effect but the risk of such export tariffs being adopted remains present in the long term.

***The Group's business entails significant health, safety and environmental liability risks***

The Group operates industrial facilities in which heavy metals or hazardous substances that are liable to present significant risks to the health or safety of neighbouring populations and to the environment are present. In this respect, the Group has in the past and may in the future incur liability for having caused injury or damages to persons or property or for the pollution of the environment.

Although the Group has made provisions for such future potential liability, there can be no assurance that the amounts covered by such provisions will prove to be sufficient in the future due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. It is possible that the assumptions used to determine these provisions will need to be adjusted in the future due to future changes in regulations, changes in the interpretation or application of regulations by the relevant authorities, or, with respect to issues related to restoration of the environment, changes in technical, hydrological or geological restrictions, or the discovery of pollution that is not yet known. It is possible that the Group's current insurance policies will be insufficient to cover the costs of any such future material liability. See "*—The Group's existing and*

*future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel and mining operations”.* Any such liability shortfalls could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***Achieving environmental compliance at sites that are currently in operation or that have been decommissioned entails a risk that could generate substantial financial costs for the Group***

The competent authorities have made, are making or may in the future make specific requests that the Group carries out environmental improvement works, such as cleaning up and rehabilitating sites, and controlling emissions at sites in Europe where it is currently operating, or where it has operated in the past (including at sites it has disposed of), at neighbouring sites or at sites where the Group stored or disposed of waste. The Group may be required to incur significant costs to fulfil these obligations, which could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***Additional or stricter environmental rules and regulations may significantly increase the Group’s cost of compliance***

The Group’s steel making plants and mining operations involve potential environmental problems including the generation of pollutants and the storage and disposal of wastes and other hazardous materials. As a result, the Group must comply with stringent regulatory requirements necessitating the commitment of significant financial resources and expects that the global trend towards stricter environmental laws and regulations will continue. Any significant increase in the cost of complying with such environmental rules and regulations in the future could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group’s existing and future insurance coverage may not be sufficient to cover costs arising from hazards and other operational risks arising from its steel and mining operations***

Although the Group believes that, with respect to each of its production facilities, it maintains insurance at levels generally in line with the relevant local market standards, some of its business divisions do not have comprehensive business interruption insurance and most of the Group’s business divisions do not maintain environmental liability insurance. In particular, the Russian Steel Division maintains only limited levels of insurance against business interruption, but does not have insurance against third party liabilities for property or environmental damage. The Group would therefore suffer significant losses in the event of damage to or destruction of any of its principal operating assets in Russia or in the event that any claim is brought against the Group relating to personal injury, death or property damage caused by the Group’s operations in Russia. In addition, no assurance can be given that the Group will be able to maintain existing insurance or obtain additional insurance coverage at commercially reasonable rates, which could lead to future shortfalls between the Group’s liability and its insurance coverage. Any such liability shortfalls could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group maintains a significant part of the social and physical infrastructure in the Cherepovets area, which requires a substantial commitment of resources***

The Group has been responsible for maintaining a portion of the social and physical infrastructure in and around the city of Cherepovets and currently owns various social assets. The Group is by far the largest employer in Cherepovets, and it estimates that its tax and other similar payments to the city of Cherepovets accounted for a significant proportion of the city’s total budget for the years ended 31 December 2011 and 2010. The Group expects that the city of Cherepovets will continue to rely on it for a substantial portion of its budget and that it will continue to maintain some of its commitments in respect of social, employment and welfare infrastructure in the Cherepovets area.

The Group’s limited flexibility and significant level of additional fixed resource commitments could have a material adverse effect on the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***The steel industry is highly competitive, and the Group may not be able to compete successfully***

The markets for steel and steel products are highly competitive. Steel producers are also in competition with producers of substitute materials, particularly in the automotive, construction and packaging industries. The Group’s competitors include major international steel producers, some of

which are larger or have greater capital resources than the Group or, in some cases, have lower costs than the Group. Competitors may have competitive advantages in terms of location and access to key suppliers and transport routes. The Group's competitive position may also be affected by the recent trend towards consolidation in the steel industry. The highly competitive nature of the industry combined with excess production capacity for some steel products has exerted, and may in the future continue to exert, downward pressure on prices of certain of the Group's products. There can be no assurance that the Group will be able to compete effectively in the future.

In addition, as a major Russian steel producer, the Company appears on the register of the FAS maintained for companies with a 35.0 percent share in a particular goods market. The measures applicable to the Company as a result of this inclusion could restrict its ability to set prices for such goods.

Failure by the Group to compete effectively for any of these reasons could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Inflation in Russia could increase the Group's costs***

Although inflation in Russia decreased from 8.8 percent year on year in 2010 to 6.1 percent in 2011, the lowest level in the last 20 years, according to Rosstat, inflation may increase in the future. As Rosstat reported, the recorded level of inflation for the nine months of 2012 was at a level of 5.2 percent. Inflation is expected to continue to grow in the last quarter of 2012 and thus may exceed the forecasted level of 7.0 percent (by the Ministry of Economic Development) by the end of 2012. A number of the Group's costs relating to its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in general price levels in Russia. However, due to competitive pressures, the Group may not be able to raise prices sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase the Group's costs and there can be no assurance that the Group will be able to maintain or increase its operating margins to cover such costs and failure to do so could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Wage increases in Russia may reduce the Group's profit margins***

Wage costs in Russia have historically been significantly lower than wage costs in the more economically developed countries of North America and Europe for similarly skilled employees. However, if wage costs were to increase in Russia, this could result in a reduction in the Group's profit margins. Unless the Group is able to continue to increase the efficiency and productivity of its employees, wage increases could have a material adverse effect on its business, results of operations, financial condition, future prospects and the value of the Bonds.

***The Group's Russian operations obtain significant amounts of their electricity from the wholesale market which is currently subject to an ongoing liberalisation programme and purchase a substantial portion of their natural gas needs from a government controlled entity that declared a programme of price increases, either of which could result in costs increases***

In 2011, the Group's Russian operations purchased significant volumes of natural gas from subsidiaries of OAO Gazprom (*Gazprom*), a government controlled entity and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the government and have been rising over the last few years. In 2011, gas prices rose by approximately 15.0 percent, according to Russia's Ministry of Economic Development. The current Gazprom strategic program is aimed at gas price increases for customers in Russia and designed to move prices toward European levels. According to the programme, approved by the Ministry of Economic Development, in 2012, gas prices increased by 15 percent since 1 July 2012. The total annual price increase will reach 7.1 percent by the end of 2012. The Group has, however, been able to take advantage of more favourable pricing as competition in the Russian gas market has increased. For example, one of the Group's major subsidiaries has entered into a gas supply contract with OAO Novatek, a competitor of Gazprom, for 2013.

The Group's electricity purchases come from the wholesale market. Starting from 1 January 2011, price controls on electricity were removed under the implementation of the liberalisation program aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market based system. Currently, however, only 35 percent of the electricity market has been liberalised. In 2011, wholesale electricity prices for the Group increased by

approximately 8.5 percent. According to plans of the Ministry of Economic Development, in 2012 electricity prices are forecasted to increase by approximately 7 to 8 percent.

Any substantial increases in costs could adversely affect the Group's future profitability to the extent it is unable to pass on higher costs to its customers. This could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Company is beneficially controlled by a single person, whose interests could conflict with those of the Bondholders***

The Company is beneficially controlled by Mr. Alexey Mordashov (the **Majority Shareholder**), who as at 14 November 2012, controlled indirectly 79.17 percent of the Company's shares. As a result, the Majority Shareholder has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with the Majority Shareholder and his affiliates can benefit the Company, the interests of the Majority Shareholder could at times conflict with the interests of Bondholders. Although the Group has in the past sought and continues to conclude related party transactions on an arm's length basis, conflicts of interest may arise between the Group, its affiliates and the Majority Shareholder or his affiliates, resulting in the conclusion of transactions on terms not determined by market forces. See "Eurobond Prospectus—Management" and "Eurobond Prospectus—Related Party Transactions" incorporated by reference herein. Any such conflict of interest could adversely affect the Group's business, financial condition and results of operations, future prospects and the value of the Bonds.

***The Group's competitive position and future prospects are heavily dependent on the experience and expertise of its Majority Shareholder, senior management and technical personnel***

The Majority Shareholder, who is also the Group's chief executive officer, and senior management team have been and, the Group believes, will continue to be important in the implementation of the Group's strategy and the operation of the Group's day to day activities. The experience, personal connections and relationships of members of senior management are important to the conduct of its business. There can be no assurance that these individuals will continue to make their services available to the Group in the future. The Group partially maintains key man insurance covering its senior managers. Moreover, competition for management and technical personnel, such as steel and mining engineers, with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect the Group's ability to retain its existing senior management and technical personnel and attract additional suitably qualified senior management and technical personnel. The loss or diminution in the services of members of the Group's senior management team or technical personnel or an inability to attract and retain additional senior management and technical personnel could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Severe weather conditions could significantly affect the Group's business and financial results***

Severe weather conditions in Russia can affect the Group's ability to produce and transport its products. For example, in 2012 at Vorkutaugol's surface mine Yunyaginsky, flood levels exceeded seasonal norms. As a result of the surface mine impounding, commercial output in April decreased. A substantial part of the Group's sales by volume from its Russian steel operations sold internationally are routed through the port of St. Petersburg, which experiences occasional shutdowns due to bad weather and can only be fully utilised during the summer navigation period, when the Gulf of Finland is not frozen over. Severe weather in March 2011 led to a queue of approximately 150 vessels in the Gulf of Finland waiting for an icebreaker from Murmansk, which resulted in cargo delivery delays. Normally, the queue does not exceed fifty vessels. Severe weather conditions could negatively affect distribution and therefore revenues from international sales. Any of these climatic limits could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Disruption in rail transport and increased rail costs could significantly hinder the Group's operations and product distribution in Russia***

The Group's Russian operations depend on the Russian railway system and rely predominantly on the rail freight network operated by JSC Russian Railways (**Russian Railways**) for

transport of raw materials and deliveries of its steel products to its facilities, consignment agents and customers. Russian Railways is the predominant company in the Russian railway sector which, together with its subsidiaries, owns the country's largest fleet of freight rolling stock. It also plays a monopolistic role as the sole railway infrastructure operator, and it enjoys a near monopoly in the provision of locomotive services.

The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, largely date back to Soviet times and have in many cases, not been adequately maintained.

The Russian railway system is subject to risks of disruption as a result of the declining physical condition of the facilities, a shortage of railcars, the limited capacity of border stations and load shedding, including those due to poorly maintained railcars and train collisions. In particular, the rolling stock of Russian Railways is generally in a poor state of repair. While the Group owns and leases railcars, and rents additional railcars, such assets are sufficient for only a portion of the Group's total transportation requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, a disruption in transportation of the Group's raw materials and products and increased costs of rail transport. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to material disruptions of the Group's business or increase the Group's costs of doing business.

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

The Group considers alternative delivery methods (such as river and motor transport) where practicable. Any disruption in transportation or increase in tariffs could significantly increase the Group's costs, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group may be subject to administrative sanctions, required divestitures or limitations on operations if it fails, or is found to have failed, to comply with the prior approval or subsequent notification requirements of the FAS with respect to its acquisitions of companies that are incorporated and operating in Russia or assets located in Russia***

The Group has expanded its operations through the acquisition of companies that are incorporated and operating in Russia or assets that are located in Russia, such as the mining companies that currently comprise Severstal Resources. Some of these acquisitions are, or were, subject to the prior approval or subsequent notification requirements of the FAS, or its predecessor agencies. Certain portions of these requirements are vaguely worded and there can be no assurance that the Group will be able to comply fully or that the FAS will not challenge the Group's past compliance, which could result in administrative sanctions, required divestitures or limitations on operations. Any such sanctions, divestitures or limitations would materially adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences***

The Group's business depends on the continuing validity of its licences, the issuance to it of new licences and its compliance with the terms of its licences, including subsoil licences for the Group's mining operations in Russia. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example, by initiating legal proceedings alleging that the issuance of a licence violates the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra legal factors. In the case of subsoil licences,



unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that the Group requires may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict the Group's ability to conduct its operations or to do so profitably. As part of their obligations under licensing regulations and the terms of their licences, the Group's Russian subsidiaries are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor the Group's operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect their activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources and Ecology of Russia has not issued any new interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under the Russian legal system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, while the Group seeks to comply with the terms of its subsoil licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in Russia discover a material violation by a member of the Group, that member of the Group may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on the Group's business or results of operations.

Any or all of these factors may affect the Group's ability to obtain, maintain or renew necessary licences. If the Group is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly introduced material restrictions, it may be unable to benefit fully from its reserves, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

In addition, the Group's business outside of Russia also depends on the continuing validity of licences, the issuance to them of new licences and compliance with the terms of such licences, which may involve uncertainties and costs to the Group. In particular, the Group is engaged in discussions with Michigan state environmental authorities regarding the licencing of Severstal Dearborn's blast furnace. While the Group believes its existing state licence is valid, it may be forced, as a result of these discussions, to apply for a new licence and comply with more stringent environmental regulations, which could potentially result in a shutdown of Severstal Dearborn's blast furnace or the installation of costly additional pollution control technologies.

***The Group has engaged and may continue to engage in related party transactions and major transactions***

The Group has engaged in transactions with certain of its shareholders, including the Majority Shareholder, directors and executive officers and companies controlled by them or in which they or the Group own an interest (see "*Eurobond Prospectus—Related Party Transactions*" incorporated by reference herein). The Group believes that these related party transactions have been and will continue to be concluded at arm's length. However, there can be no assurance that the terms on which these related party transactions are conducted have not and will not differ significantly from the terms on which third party transactions have been and are conducted. The practice of related party transactions may result in transactions conducted on terms less favourable to the Group than would otherwise have been negotiated with third parties and could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds. Besides that, the Company and other entities of the Group have engaged in large value transactions which under applicable Russian law are categorised as "major transactions" and which require approval by the board of directors or, depending on the size of the relevant transaction, by the shareholders of the company that is entering into such transaction. The Group believes that those "major transactions" which the Group entities enter into are properly authorised. However, there can be no assurance that all procedural requirements have been complied with in connection with the approval of such transactions. A "major transaction" which has not been properly authorised may be challenged by a company or any of its shareholders.

***The Group's business depends on good relations with its employees. A breakdown in these relations and/or restrictive labour and employment laws could have a material adverse impact on the Group***

Although the Group believes its labour relations with its employees are good, there can be no assurance that a work slowdown or a work stoppage will not occur at any of the Group's operating units or exploration prospects. At most of the Group's business units, there are collective bargaining agreements in place with labour unions. Any future work stoppages, disputes with employee unions or other labour related developments or disputes, including renegotiation of collective bargaining agreements, could result in a decrease in the Group's production levels and adverse publicity and/or an increase in costs, which could have a material adverse effect on the Group's business, results of operations and financial condition and the value of the Bonds.

***Employees and former employees of the Group and service providers or customers of the Group (as well as neighbouring populations) may have been exposed, and, to a certain extent, may still be exposed, to toxic or hazardous substances***

The Group's steel and mining operations use, and have in the past used, large quantities of heavy metals, chemicals, toxic or hazardous substances. In spite of safety and monitoring procedures implemented by the Group at each production site, employees, and in some cases the employees of other companies and service providers, have been or may have been exposed to such substances and some employees may have developed specific pathologies from such exposure, which could induce them to file claims against the Group in future years.

The Group is involved in legal actions and occupational illness claims due to past exposure to asbestos. Owing to the latency periods for various asbestos related pathologies, the possibility that an increasing number of legal actions or occupational illness claims will be filed in the years ahead cannot be excluded. In addition, employees of the Group or its service providers or customers or persons living near the Group's manufacturing facilities are exposed or have in the past been exposed to certain substances that are currently considered not to be hazardous. However, chronic toxicity, even in very low concentrations or exposure doses, could be discovered in the future. This could also lead to claims against the Group.

If any of the events described above lead to a material liability for the Group in the future, this could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Group bears the risk of interest rate fluctuations***

Interest rates on the Group's debt are either fixed or variable, at a fixed spread over LIBOR, EURIBOR or MOSPRIME (the "Moscow Prime Offered Rate") for the duration of each contract. As at 30 September 2012, 24 percent of the Group's total outstanding indebtedness carried a variable rate. Accordingly, the Group is exposed to the effect of fluctuations in interest rates with an immediate effect on the interest costs of the Group, in the case of borrowings at a variable rate interest, and an effect on the rate at which borrowings at fixed rates of interest are refinanced or renewed from time to time. There can be no assurance that the costs associated with an increase in the rates of interest at which the Group borrows funds will be able to be passed on in the form of higher prices to its customers. Accordingly, increases in interest rates may have an adverse effect on the Group's business, results of operations, financial condition and prospects.

***The Group may incur losses as a result of fluctuations in the foreign currency exchange rates of the rouble, the US dollar or the euro***

The Group is exposed to translational and transactional foreign currency exchange rate risks. Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in currencies other than US dollars into US dollar amounts for financial reporting purposes. Transactional foreign currency exchange rate risks arise as a result of payments the Group makes or receives that involve foreign currency exchange. Currently, the Group's International operations are balanced with most of their revenues, borrowings and expenses denominated in the same currency. The Group's Russian operations have revenues denominated in roubles, US dollars and euros, with meaningful fluctuations year on year. Expenses are mostly in roubles and borrowings are in US dollars and euros. As the Group reports its financial results in US dollars and must frequently exchange or translate foreign currency into roubles or roubles into foreign currency, fluctuations in foreign currency exchange rates could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Russia's property law is subject to uncertainty and contradiction***

The legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real estate to the same extent as is common in some of the more developed market economies of North America and Europe. Land use and title systems rely on complex traditional ownership systems. As a result, the title of land that the Group might invest in may be unclear or in doubt. Moreover, the validity of the Group's right to title or use of its properties may be successfully challenged or invalidated due to technical violations or defects in title. Such instability creates uncertainties in the operating environment in the emerging market nations, which could hinder the Group's long term planning efforts and may prevent the Group from carrying out its business strategy effectively and efficiently. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the right to use such real property, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries and its Russian joint venture entities***

Under Russian law, the Company may be jointly and severally liable for the obligations of its Russian subsidiaries or joint venture entities together with such entities if (i) the Company has the ability to make decisions for such Russian subsidiaries or joint venture entities as a result of its ownership interest, the terms of a binding contract or in any other way, (ii) the Company has the ability to issue mandatory instructions to such Russian subsidiaries or joint venture entities and that ability is provided for by the charter of the relevant Russian subsidiary or joint venture entity or in a binding contract and (iii) the relevant Russian subsidiary or joint venture entity concluded the transaction giving rise to the obligations pursuant to the Company's mandatory instructions. In addition, the Company may have secondary liability for the obligations of its Russian subsidiaries or joint venture entities if (a) it has the ability to make decisions for the relevant Russian subsidiary or joint venture entity as a result of its ownership interest, the terms of a binding contract, or in any other way and (b) the relevant Russian subsidiary or joint venture entity becomes insolvent or bankrupt due to the Company's fault (i.e., the Company has used its ability referred to in (a) above knowing that this would result in insolvency or bankruptcy of the relevant Russian subsidiary or joint venture entity). This type of liability could result in significant losses, and could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Incomplete, unreliable or inaccurate official data and statistics could create uncertainty***

The Group relies on and refers to information and statistics from various third party sources and its own internal estimates. For example, substantially all the information contained in these Listing Particulars concerning the Group's competitors has been derived from publicly available information. The Group believes that these sources and estimates are reliable, but has not independently verified them. There can be no assurance that statistics derived from third party sources are true and accurate in all material respects.

***Weaknesses in the tax systems and legislation of some countries in which the Group operates create an uncertain environment for its business activity and could subject the Group to additional material tax liabilities***

The Group operates in various jurisdictions. Tax legislation that is currently in effect in some of these jurisdictions is in its infancy and not well developed and is subject to varied interpretations by the local authorities. Despite the Group's efforts to comply with the applicable tax legislation, the selective application of the relevant tax laws at the discretion of the local authorities complicates tax planning and business decisions within the Group. Furthermore, it puts the arrangements and structures in place at risk of being challenged by the local tax authorities based on the adverse selective interpretation by them of the applicable tax legislation (with the possibility of the application of new interpretations of tax laws and regulations retroactively), which could have a material adverse effect on the Group's business, financial position, results of operations, prospects and the value of the Bonds.

As of 31 December 2011, the actual and potential contingent claims for taxes, fines and penalties made by the Russian tax authorities to certain Group entities amounted to approximately US\$17.7 million. Management of the Group does not agree with the tax authorities' claims and believes that the Group has complied with the existing legislation in all material respects. The

management of the Group is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. The Group's management believes that it has made adequate provisions for other probable tax claims.

#### **RISK FACTORS RELATING TO RUSSIA**

A substantial portion of the Group's fixed assets are located in Russia and a significant portion of the Group's revenue is derived from Russia. There are certain risks associated with investments in Russia.

***Emerging markets such as Russia are subject to greater risks than more developed markets, including significant economic, political and social, and legal and legislative risks; in addition, financial turmoil in Russia could disrupt the Group's business, as well as negatively affect the value of the Bonds***

Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and who fully appreciate the significance of the risks involved in investing in emerging markets and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Bonds.

The European sovereign debt crisis of 2011 and 2012, has so far had a relatively limited impact on the Russian economy due to Russia's relatively healthy public finances including a low debt to GDP ratio, relatively small budget deficit, and high levels of foreign currency reserves. However, should the ongoing crisis lead to a significant worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the short and medium term could also be negatively affected.

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

#### ***Political Risks***

***Changes in the political situation inside Russia or Russia's involvement in conflicts with other countries could create an uncertain operating environment, hinder the Group's long term plans and adversely affect the value of the Group's investments in Russia***

In the past, ethnic, religious, historical and other divisions inside Russia have led to tensions and, in certain cases, military conflict and terrorist attacks. If such an event were to occur in the future, it could result in significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which may disrupt normal economic activity.

In the past such conflicts occurred between Russia and its neighbours. For example, a military conflict in August 2008 between Russian and Georgia involving South Ossetia and Abkhazia may have added additional downward pressure on the Russian stock market, which had already been affected by the global economic downturn. As a result of this conflict, Russia's relations worsened with certain other countries for a considerable period of time. Russia's relationships with Ukraine have also been strained recently for a variety of reasons. While Russia's relationship with both Georgia and Ukraine has improved and stabilised and none of these conflicts have, to date, directly affected the Group's business, there can be no assurance that such conflicts or tensions could not re-emerge or intensify and, in turn, have an adverse effect on the Group's business, financial condition and results of operations.

***Political and governmental instability could adversely affect the value of investments in Russia, including the Bonds***

Since 1991, Russia has moved from a one party state with a centrally planned economy to a federal republic with democratic institutions and a market oriented economy. The Russian political system, though more stable than in the 1990s, remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government has, at times, been unstable. On 4 December 2011, the State Duma elections were held and, on 4 March 2012, presidential elections were held in the Russian Federation. The structure of political forces in the State Duma did not change substantially and Vladimir Putin was elected as president. While the Russian political system and the relationship between the Russian President, the Russian government and the State Duma currently appears to be stable, future political instability could result either from an economic downturn, a decline in standards of living, political disagreements or unrest, change in government policy or otherwise.

In addition, shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Any significant change in, or suspension of, the Russian government's programme of reform in Russia, major policy shifts or a lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups, could lead to a deterioration in Russia's investment climate. This could have a material adverse effect on the value of investments relating to Russia and as such on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Arbitrary or selective state action could have a material adverse effect on the Group's business***

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. For example, some analysts cite the Russian Government's effective re-nationalisation of Yukos in the 2000s as an example of the Russian Government's selective actions. Possible state actions include withdrawal of licences, interference with or nullification of contracts and transactions entered into in connection with privatisations, invalidation of share issuances and registrations, sudden and unexpected tax audits, criminal prosecutions and civil actions.

There can be no assurance that business activities of the Group will not be affected by the tax audits undertaken by the Federal Tax Service. In addition, the Cherepovets Steel Mill is the largest taxpayer in the Vologodskaya region where it is located, and any substantial decrease in its tax liabilities may be subject to investigation by the tax authorities in more aggressive fashion than would usually be the case. See "*—The Group maintains a significant part of the social and physical infrastructure in the Cherepovets area, which requires a substantial commitment of resources*".

Arbitrary or selective state action, if directed at the Group, in Russia or in any other jurisdiction where the Group undertakes projects or operations could lead to the loss of key licences, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Economic Risks***

***Economic instability in Russia could adversely affect the Group's business***

From 2000 until the first half of 2008, Russia experienced rapid growth in its GDP, increased tax revenue and increased stability of the rouble, providing some degree of economic soundness. However, the Russian economy was adversely affected by the global financial and economic crisis that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. While the Russian economy has strengthened in 2010 and 2011, with its GDP increasing by 4.3 and 4.3 percent, respectively, according to Rosstat, any economic reversal is likely to have a negative impact on the Group's profitability. Any of the following risks, which the Russian economy has experienced at various times in the past and some of which occurred during the financial and economic crisis, may have a significant adverse effect on the investment climate in Russia and, in turn, may be a significant burden on the Group's operations:

- significant declines in GDP;

- hyperinflation;
- increases in, or high, interest rates;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory Bonds to settle commercial transactions;
- tax evasion;
- the “black” and “grey” market economies;
- high levels of capital flight;
- corruption and the penetration of organised crime into the economy;
- political and social instability;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

In addition, as Russia produces and exports large quantities of oil, natural gas and other mineral resources, the Russian economy is particularly vulnerable to market downturns or economic slowdowns elsewhere in the world. This may cause fluctuations in the prices of oil, natural gas and minerals on the world market, which reached record high levels in 2008 and have since experienced high levels of volatility, including significant decreases.

Further, there can be no assurance that a future economic crisis will not have a negative effect on investor confidence in the Russian markets or economy and the ability of Russian based companies to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian economy.

The occurrence of any of these events could adversely affect Russia’s economy and the Group’s business, financial condition, results of operations, future prospects and the value of the Bonds.

***Instability of global financial markets could affect the Russian economy and the Group***

Financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the summer of 2008. As a result of these developments, there is an increased concern about the stability of the financial markets generally and the strength of counterparties. As a result, many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

Since March 2009, international private credit markets have started to improve. However, the global economy remains vulnerable to renewed shocks, including a potential worsening of the sovereign debt crisis in the Eurozone, as a result of which many countries in the EU have recently re entered into a recession.

Russia’s economy was adversely affected by the global financial and economic crisis in 2008 2009 and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost

of domestic and external funding for Russian entities. This could adversely influence the level of customer demand for various goods and services, including those provided by the Group.

These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Introduction of currency restrictions may limit the Group's ability to execute its strategy or operate its business or could otherwise adversely affect the Russian capital markets***

During the 1990s, Russia's currency regulation and control regime severely limited, and at times prohibited, certain hard currency payments and operations. Despite recent liberalisation, there can be no assurance that Russia's currency regulation and control regime will not impose new restrictions or prohibitions. Restrictions or prohibitions on hard currency payments and operations could limit the Group's ability to invest in its capital improvement programmes, pursue attractive acquisition opportunities or purchase raw materials or sell its products internationally. In addition, such restrictions or prohibitions may limit an investor's ability to repatriate earnings from securities of Russian issuers, including the Group, or otherwise have a negative impact on the Russian capital markets. The consequences of any new restrictions or prohibitions could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***The Russian banking system remains underdeveloped with a limited number of creditworthy Russian banks, and another banking crisis could place severe liquidity constraints on the Group's 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 application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998 when several privately owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR and foreign owned banks generally were not adversely affected by the turmoil.

The transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

Prior to the global financial and economic crisis in 2008-2009, there had been a rapid increase in lending by Russian banks, which many believe was accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market has led to Russian banks increasingly holding large amounts of Russian corporate rouble denominated bonds in their portfolios, which further deteriorated the risk profile of Russian bank assets.

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. There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Group's funds, could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, any shortages of funds or other disruptions to banking experienced by the Group's banks from time to time could also have a material adverse effect on the Group's ability to

complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Russia's physical infrastructure is in poor condition***

The physical infrastructure in Russia, including rail and road networks, power generation and transmission, communication systems, and building stock, largely dates back to Soviet times and has not been adequately funded and maintained. Electricity and heating shortages in some regions of Russia have seriously disrupted the local economies. For example, in August 2009, an accident at the Sayano Shushenskaya hydroelectric power plant resulted in a significant portion of the supply to the local power grid being lost, which led to widespread power failure in the region and forced all major users such as aluminum smelters to switch to generators. Additionally, in January 2006, electricity supplies to certain industrial customers in Moscow were reduced as a result of extreme cold weather in Moscow. Other parts of the country face similar problems.

Road conditions throughout Russia are also poor, with many roads not meeting modern quality requirements. The Russian Government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications, increase the cost of doing business in Russia or disrupt business operations, any or all of which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Social Risks***

***Social instability could lead to labour and social unrest, increased support for renewed centralised authority, nationalism or violence***

In the view of some analysts, the failure 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 labour and social unrest. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as occurred as a result of the global financial and economic crisis in 2008-2009, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already led to a certain amount of labour and social unrest that may continue or escalate in the future. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with support for re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence.

In addition, following the State Duma elections held on 4 December 2011 and the presidential elections held on the 4 March 2012, Moscow, St. Petersburg and some other major urban centres in Russia experienced protests from supporters of opposition parties alleging irregularities in those elections, and supporters of the incumbent political party, on a scale not seen in Russia for many years. However, the political situation has since stabilised and the protest movement has weakened to an extent that such social unrest is not expected to continue or escalate in the immediate term.

Nonetheless, if any of the foregoing, including a resumption of any politically related social unrest, were to occur, it could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on the Group's business, financial condition, results of operations and future prospects and the value of the Bonds.

***Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect the Group's financial condition and results of operations***

Organised criminal activity has reportedly increased significantly since the dissolution of the Soviet Union in 1991, particularly in large metropolitan centres. In addition, the Russian and international press have reported high levels of official corruption in Russia and other CIS countries, including the bribery of officials for the purpose of initiating investigations by state agencies, obtaining



licences or other permissions or in order to obtain the right to supply goods or services to state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment.

The proliferation of organised or other crime, corruption and other illegal activities that disrupt the Group's ability to conduct its business effectively, or any claims that it has been involved in corruption, or illegal activities (even if false) that generate negative publicity, could have an adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

### ***Risks Relating to the Russian Legal System and Russian Legislation***

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

Russia's legal framework has evolved rapidly in recent years. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of the Russian Federation of 1993, the Civil Code of the Russian Federation and other federal laws, decrees, orders and regulations issued by the president, government and federal ministries, which can be complemented by regional and local rules and regulations, adopted in certain spheres of regulation. These legal norms on the one hand can overlap or contradict one another and on the other hand can leave gaps in the regulatory infrastructure. Several fundamental Russian laws have only recently become effective. Consequently, certain areas of judicial practice are not yet formed, and are often difficult to predict.

Among the risks of the current Russian legal system are:

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

In addition, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability of some of the more recently enacted laws may be subject to doubt and many new laws remain untested. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect the Group's ability to enforce its legal rights in Russia, including rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

#### ***The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group or the Bondholders from obtaining effective redress in a court proceeding and could materially adversely affect the value of the Bonds***

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia are also less than complete. The Russian court system in the past has been and may still be understaffed and underfunded. Russia, along with many western European states, such as Germany and France, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can sometimes be time consuming because of the large number of outstanding court

judgments. Additionally, court claims are often used in furtherance of political aims. The Group may be or may become subject to such claims and may not be able to receive a fair trial.

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

***The Group is subject to anti monopoly laws enforced by the FAS, which may result in certain limitations being imposed on the Group's activities, the violation of which may result in civil, administrative and even criminal liability***

The Federal Law No. 135 FZ "On Protection of Competition" dated 26 July 2006, which came into force on 26 October 2006, (the ***Competition Law***) generally prohibits any concerted action, agreement or coordination of business activity that results or may result in, among other things, (a) price fixing, discounts, extra charges or margins; (b) coordination of auction bids; (c) partition of a commodity market by territory, volume of sales or purchases, types of goods, customers or suppliers; (d) refusal to enter into contracts with buyers (customers) for reasons other than economic or technological reasons; (e) imposing unfavourable contractual terms; (f) fixing disparate prices for the same goods, for reasons other than economic or technological reasons; (g) creation of barriers to entering or exiting a market; and (h) restriction of competition in any other way. There is no established court practice on what concerted actions or coordination of business activity is and courts interpret these concepts inconsistently. As a result, there is significant uncertainty as to what actions may be viewed as violation of the Competition Law. In a number of precedents, Russian courts found concerted actions where market participants acted in a similar way within the same period of time, although, arguably, there have been legitimate economic reasons for such behaviour and the behaviour was not aimed at restriction of competition. Therefore, there is a risk that the Group can be found in violation of the Competition Law if its market behavior, vis à vis its customers or suppliers is viewed as being similar to behaviour of the Group's competitors and perceived by the FAS as a purported restriction of competition. Such broad interpretations of the Competition Law may result in the FAS imposing substantial limitations on the Group's activities, may limit operational flexibility and may result in civil, administrative and even criminal liability.

The FAS has ample powers to investigate perceived violations of the Competition Law, has been very active over the last several years in policing marketing, sales and supply strategies of major participants of the Russian steel industry and has brought charges against certain market participants alleging concerted actions in violation of the Competition Law.

In July 2010, the FAS commenced proceedings in respect of several steel companies, including the Group, for alleged actions in violation of the Competition Law. Specifically, the FAS is investigating claims about high steel prices and the different prices charged to Russian and non Russian customers, with the issue being discrimination against Russian customers in favour on non Russian customers. In March 2011, the FAS has admitted that there has been no violation of the Competition Law and the case has been closed.

If the Group's activities are found to be in violation of the Competition Law in any of the cases described above or in any other cases, the Group could be subject to penalties or ordered to change its business operations in a manner that increases costs or reduces profit margin and revenue, which can adversely affect the Group's business, financial condition and results of operations.

***Laws restricting foreign investment could materially adversely affect the Group's business***

The Federal Law "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defence and Security of the State" No. 57-FZ, as amended (the ***Strategic Investments Law***) came into force in May 2008. The Strategic Investments Law establishes certain restrictions for foreign investments into Russian companies which are deemed strategically important for the defence and security of the Russian Federation (the ***Strategic Companies***). The Strategic Investments Law provides for the list of activities that have strategic importance for the national

defence and security. This list *inter alia* includes (a) exploration and production of subsoil of federal land plots and, generally, (b) activities of those companies that have a market share in a particular segment in excess of 35 percent.

Under the Strategic Investments Law, an establishment by foreign entity (or any other person that is a member of the group with the participation of a foreign entity) (a **Foreign Investor**) of direct or indirect control over a Strategic Company requires a permit of the competent state authority. Therefore, *inter alia*, a direct or indirect acquisition by a Foreign Investor of a stake in a Strategic Company which vests an acquirer with right to exercise certain percentage of voting rights (ranging from over 5 to over 50 percent depending on type of the Foreign Investor and type of the Strategic Company) in the charter capital of the Strategic Company, requires obtaining a prior permit of the competent state authority. If an acquisition of a stake over the relevant percentage happens without obtaining such prior permit, the acquisition transaction is void under Russian law and the Foreign Investor may be deprived from voting rights which correspond to the stake acquired in the Strategic Company. Moreover, completion of the transaction without a prior permit of the competent state authority may result in fines imposed on the Foreign Investor.

The above-mentioned restriction, as well as any limitations on foreign investment which may be imposed in the future and any unfavourable interpretations of respective legal requirements by courts and competent authorities may limit the Group's ability to raise equity financing in foreign capital markets or consummate strategic transactions in the future and, therefore, may have a material adverse effect on the Group's business and results of operations.

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

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

If any of the Group's acquisitions is challenged as having been improperly conducted and the Group is unable to defend itself successfully, the Group may lose its ownership interests, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the value of the Bonds.

***Shareholder rights provisions of Russian law may impose additional costs on the Group, which could cause its financial results to suffer***

Under Russian law, shareholders that vote against or abstain from voting on some decisions have "appraisal rights", or the right to sell their shares back to the Company at market value. The decisions that trigger such "appraisal rights" include:

- a reorganisation;
- the approval by the shareholders of a major transaction, the value of which comprises over 50 percent of the Company's assets calculated in accordance with RAS as at the last reporting date, regardless of whether the transaction is actually consummated or not; and
- amendments to the Company's charter in a manner that limits shareholder rights.

In these circumstances, the obligation for the Company to buy back shares is limited to an amount of shares with an aggregate value of up to 10% of the Company's net assets, calculated according to RAS at the time the relevant decision is taken.

If these circumstances were to occur in relation to the Company (or, as the case may be, in relation to any of its Russian subsidiaries that it does not wholly own (a "**Relevant Russian Subsidiary**"), then the Company's (or a Relevant Russian Subsidiary's) obligation to buy back an amount of shares equal to up to 10 percent of the Company's (or a Relevant Russian Subsidiary's) net assets (calculated in

accordance with RAS at the time that the matter at issue is voted on) could have a material adverse effect on the Company's results of operations and financial condition.

In addition, shareholders who vote against or abstain from voting on a decision to place shares of stock or convertible securities through a closed subscription (or private placement), as well as all shareholders in the case of a share issuance through an open subscription, have a pre-emptive right to acquire additional shares or convertible securities at the same price, pro rata, to the number of shares they own. This requirement may lead to delays in the Company completing equity and convertible offerings and may lead to uncertainty with respect to sales of newly-issued shares to strategic investors.

***Russian tax laws, regulations and practice are not well developed and are subject to frequent changes that could adversely affect the Group's business***

The Company and the Russian subsidiaries of the Group are subject to a broad range of Russian taxes and other compulsory payments and levies imposed at the federal, regional and local levels, including, but not limited to profits tax, value added tax ("VAT"), mineral extraction tax, payroll taxes, excise taxes, property tax, and other taxes and levies.

Russia's laws and regulations relating to these taxes, such as the Russian Tax Code, have been in force for a short period of time as compared to tax laws and regulations existing in countries with more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in frequent changes in the tax legislation and its interpretation and application, which sometimes occur at short notice and could be applied retroactively. Although Russia's tax climate, tax system and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner that would significantly contribute to the instability and unpredictability of the Russian tax system. It is also possible that the Russian Government will impose arbitrary or onerous taxes, fines and penalties in the future which could adversely affect the business of the Company and the Russian subsidiaries of the Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Russian Tax Code relating to the above-mentioned taxes are relatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Different interpretations of tax laws and regulations may exist both among and within government bodies at the federal, regional and local levels increasing the number of existing uncertainties and tax risks and leading to inconsistent enforcement of these laws and regulations in practice. The Russian tax system is therefore impeded by the fact that at times it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems.

Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws and regulations differently. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities. Therefore, there can be no assurance that the representatives of the local Russian tax inspectorates will not take positions contrary to those set out in the private responses issued by the Russian Ministry of Finance. During the past several years the Russian tax authorities have shown a tendency of taking more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax charges made by them as a result of tax audits of companies operating in various industries. In some instances, the Russian tax authorities have applied new interpretations of tax laws and regulations retroactively. It is therefore possible that transactions and activities of the Company and the Russian subsidiaries of the Group that have not been challenged in the past may be challenged in the future.

In practice, taxpayers often have to resort to court proceedings to defend their positions against the tax authorities. Rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

In its decision of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for its interpretation and application. This concept is not defined in the Russian tax legislation or other branches of Russian legislation. Based on the available practice, it could be concluded that the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the “**Supreme Arbitration Court**”) issued Ruling No. 53 (“**Ruling No. 53**”), which introduced the concept of the “unjustified tax benefit”, defined mainly by a reference to specific examples of such tax benefits (i.e., tax benefits received by taxpayers in connection with transactions that have no reasonable business rationale) which may lead to the disallowance of their application. Based on the current practice, it is apparent that the tax authorities actively seek to apply this concept to challenge tax positions taken by taxpayers. Although the intention of Ruling No. 53 was to combat the abuse of tax law, based on the court practice relating to its application in cases which were brought to courts to date, it can be concluded that the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been initially intended by the Plenum of the Supreme Arbitration Court. Importantly, the Group is aware of cases where this concept has been applied by the Russian tax authorities to disallow benefits granted by double tax treaties. Although to date the courts have often interpreted this concept in favour of taxpayers, there can be no assurance that this tendency will continue in the future.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax declarations and the related documentation remain subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a particular year has been reviewed by the tax authorities does not prevent that year, or any tax declarations and other documentation relating to that year, from further reviews by the tax authorities during the three year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher level tax authority as a measure of control over the activities of lower level tax authorities, (ii) in connection with the reorganization/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the amount of tax payable for the respective tax period. Therefore, previous tax audits do not preclude subsequent tax claims relating to the audited period. Furthermore, the Russian Tax Code provides for the possible extension of the three year statute of limitation period for liabilities for tax offences if the taxpayer is deemed to obstruct the performance of the tax audit and this has become an insurmountable obstacle for the tax audit. As the terms “obstructed” and “insurmountable obstacles” are not specifically defined in Russian tax law or any other branches of Russian legislation, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audits with obstruction committed by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liabilities for the commission of tax offenses in Russia. Such extended tax audit, if it is concluded that the Company and/or the Russian subsidiaries of the Group have significant tax underpayments for the respective prior tax periods, may have a material adverse effect on the Group’s business, financial condition and results of operations.

Russian transfer pricing legislation that was effective before January 1, 2012 was broad in scope and vaguely drafted and provided limited guidance regarding its application and interpretation, generally leaving wide scope for its interpretation and application at the discretion of the Russian tax authorities and courts. Moreover, in the event that the tax authorities make a transfer pricing adjustment, the transfer pricing rules did not provide for an offsetting adjustment for the related counterparty in the relevant transaction.

On January 1, 2012 new Russian transfer pricing legislation became effective. The list of the “controlled” transactions which fall within control under the new rules includes transactions with Russian and non Russian related parties and certain types of cross border transactions, including all transactions with companies located in “black listed” jurisdictions. These new rules have considerably increased the compliance burden for taxpayers as compared to the rules which were effective before 2012 due to, among other things, shifting the burden of justifying and proving market prices from the tax authorities to the taxpayers. Although the new rules are modelled on the basis of the OECD transfer pricing guidelines, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the local rules. Special transfer pricing rules continue to apply to securities transactions, derivatives and interest expenses. It is currently difficult to evaluate what effect these new rules may have on the Company and/or the Russian subsidiaries of the Group. However, the new transfer pricing legislation could have a considerable impact on the Group’s tax position.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation which was in effect before 2012 and the recently introduced new transfer pricing legislation, no

assurance can be given that the Russian tax authorities will not challenge prices of the transactions of the Company and/or the Russian subsidiaries of the Group and make adjustments which could adversely affect their tax positions, unless they are able to confirm arms length nature of prices applied under the “controlled” transactions. The imposition of additional tax liabilities on the Company and/or the Russian subsidiaries of the Group under the Russian transfer pricing legislation may have a material adverse effect on the Group’s business, results of operations and financial condition.

A new concept of a consolidated taxpayer was incorporated in the Russian Tax Code and became effective as of 1 January 2012. The new rules introduce consolidated tax reporting that enables the consolidation of the financial results of Russian companies for profits tax purposes which form one group (the “**Tax Group**”). The Tax Group’s profits tax base should be based on income and expenses of its participants. The consolidated profits cannot be reduced by tax losses accumulated by the participants of the Tax Group prior to its establishment. Moreover, intragroup transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing rules. There are several requirements which should be met in order to create a consolidated group.

While the Company and some of the Russian subsidiaries of the Group have created the consolidated group of taxpayers, there is no assurance that the consolidated taxpayer regime will not be changed in the future. Moreover, the impossibility of some of the Russian companies of the Group to join the consolidated group of taxpayers as well as the risks that the application of the consolidated group of taxpayers regime will subsequently be challenged by the tax authorities may have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

Further, the Russian Government in the Main Directions of the Russian Tax Policy for 2013 and the planned period of 2014-2015 expressed its intention to introduce the “controlled foreign companies” rules to the Russian tax legislation. It is currently unclear as to how and when these amendments will be enacted (if at all), interpreted and applied in practice and what effect they may have on the Group. The imposition of additional tax liabilities as a result of the application of the “controlled foreign companies” rules to transactions of the Group may have a material adverse effect on the Group’s business, results of operations, financial condition or prospects.

The facts described above create tax risks in Russia that may be substantially more significant than those typically existing in countries with more developed tax systems and, in particular, raise the risk of the imposition of additional taxes, levies, fines and penalties on the Company and/or Russian subsidiaries of the Group.

Historically, the Company and the main Russian subsidiaries of the Group have paid significant amounts of taxes to the Russian budget due to the scale of their operations. Consequently, the introduction of new taxes, an increase in the current tax rates or the introduction of amendments to currently effective taxation rules may have a substantial impact on the overall tax liabilities of the respective entities of the Group and may, in particular, result in the Group being required to make substantially larger tax payments in the future. In addition to creating a substantial tax burden, the tax risks and uncertainties described above complicate the Group’s tax planning and related business decisions, potentially exposing the Company and the Russian subsidiaries of the Group to significant additional taxes, fines and penalties and enforcement measures that could adversely affect the Group’s business, financial condition and results of operations.

***The Group’s effective tax rate and financial condition could be affected by the Russian tax status of the non Russian subsidiaries of the Group***

The Group operates in various jurisdictions and includes companies incorporated outside Russia. Russian tax laws, as currently in effect, do not contain detailed rules on taxation of foreign companies in Russia. The Russian Tax Code contains a concept of permanent establishment in Russia as a means of taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions of creating a permanent establishment under international rules, may be at risk of being treated as having a permanent establishment in Russia and become liable to the respective Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. Recently there have been several instances where the Russian tax authorities sought to challenge a Russian tax status of foreign companies; some of their attempts were successful.

Moreover, Russian tax legislation does not currently contain a concept of tax residency for legal entities. However, the Russian Government has been considering introducing the concept of tax residency for legal entities in domestic tax law, particularly for the purposes of combating tax evasion. Recently, such plans were confirmed by the Russian Government in the Main Directions of Russian Tax Policy for 2013 and the planned period of 2014-2015. In particular, it has been proposed to determine the tax residency of legal entities based on a number of criteria similar to those stipulated by the double tax treaties concluded by the Russian Federation. No assurance however can be currently given as to whether and when (if at all) these amendments will be enacted, what will be their exact nature, the approach to their interpretation and application by the tax authorities and courts as well as the possible impact on the foreign entities of the Group. The Group cannot rule out that as a result of the introduction of these changes or further changes in the approach of the Russian tax authorities and/or the courts to the application of the current taxation rules, the non taxable status of some or all foreign companies of the Group in Russia may be challenged and such foreign companies might be deemed to become Russian tax residents, subject to all applicable Russian taxes which could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group.

Though the amount of income subject to taxation in Russia should be determined as income attributable to a permanent establishment, there is a risk that the Russian tax authorities will seek to charge Russian tax based on the entire amount of income of a foreign company. In particular, pursuant to the new transfer pricing rules (see – *“Russian tax laws, regulations and practice are not well developed and are subject to frequent changes that could adversely affect the Group’s business”* above), the amount of the income of a foreign entity that is attributable to its permanent establishment is to be measured based on the functions undertaken by its Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity attributable to a permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity performed by a foreign entity in the territory of Russia. However, the practice of the application of these rules is not developed since such approach was introduced only in 1 January 2012.

The Group believes that its interpretation of the relevant tax legislation is and will be sustainable. Moreover, the Group believes that it has accrued all applicable taxes; however, the interpretation of the relevant authorities could differ and if the authorities were successful in enforcing their interpretation, the effect could have a negative impact on the financial position of the Group.

#### ***Interest payments on the Loan may become subject to Russian withholding tax***

In general, interest payments on borrowed funds made by a Russian legal entity to a non-Russian legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian profits tax withholding (**“withholding tax”**) at the rate of 20 percent (or such other tax rate as could be effective as of the date of payment) which could be reduced or eliminated under the terms of an applicable double tax treaty subject to compliance with the respective treaty clearance formalities by the recipient of interest. In particular, the Agreement between the Republic of Cyprus and the Russian Federation for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on 5 December 1998 (the **“Agreement”**) envisages exemption of interest income from Russian withholding tax provided that certain criteria specified therein are satisfied by the recipient of interest.

The application of tax benefits envisaged by the Agreement however could be affected by the change in the interpretation by the Russian tax authorities of the concept of the factual/beneficial owner of income. Specifically, on 30 December 2011 the Russian Ministry of Finance issued letter No. 03-08-13/1 (the **“Letter”**) addressed to the Federal Tax Service, in which the former asserted that in the context of a very specific Eurobond structure which is not identical to the transaction described in this Prospectus, a foreign issuer of Eurobonds cannot benefit from the provisions of the Russia-Ireland double tax treaty in respect of interest on the loan paid by the Russian borrower because, in the view of the Russian Ministry of Finance, the issuer cannot be considered as the beneficial owners of interest income. Instead the Letter says that holders of the notes could apply provisions of the respective tax treaty (if any) concluded between Russia and the country of residency of each holder of the notes. We cannot preclude the possibility that the Russian tax authorities might apply the same approach to the payments made under the structure of the Issue as described in this Prospectus.

Notwithstanding anything to the contrary above, no Russian withholding tax obligations should arise for the Russian companies in Eurobonds structures by virtue of the exemption envisaged by the Federal Law No. 97-FZ dated 29 June 2012 “On introduction of amendments to part one and part two of the Tax Code of the Russian Federation and Article 26 of Federal law on banks and banking activity” (the “**Law No. 97-FZ**”). The Law No. 97-FZ provides that Russian borrowers should be fully released from the obligation to withhold Russian income tax from interest payments made on debt obligations provided by the foreign legal entities which issued for this purpose “issued bonds”, provided that (1) interest is paid on debt obligations of Russian entities that arose in connection with the placement by foreign entities of “issued bonds” and (2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the recipient of interest on the loan (i.e., the Issuer) which can be duly confirmed by a tax residency certificate. Please see “*Taxation—Russian Federation*”.

This release applies retrospectively to interest on the respective debt obligations paid since 2007 and will continue to be available in respect of the debt obligations issued before 1 January 2014.

On this basis the Company believes that the respective conditions set out by the Law No. 97-FZ should be satisfied in respect of the structure described in this Prospectus and therefore, that the Company should be released from withholding tax agent obligations with respect to interest payable on the Loan. However, there can be no assurance that the condition relating to listing and/or admission to trading on one of the specified foreign exchanges and/or registration in foreign depository/clearing organizations will be satisfied with regard to the Bonds. Please see “*Taxation—Russian Federation*”.

Importantly, the Law No. 97-FZ does not provide for the exemption of foreign interest recipients from Russian withholding tax. Currently, however, there is no requirement and mechanism in the Russian tax legislation for foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in cases where the tax was not withheld at the source; such rules, however, are set out for non-Russian tax residents who are individuals. At the same time, earlier, the Russian Ministry of Finance acknowledged in the information letter published on its website that the release of Russian companies from withholding tax agent obligations arising in Eurobonds structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non-resident to calculate and pay independently under such circumstances the tax to the Russian budget.

There can be no assurance that requirements will not be introduced in the future or that the Russian tax authorities will not make attempts to collect the tax from foreign income recipients, including the Issuer or the Bondholders.

If interest due under the Loan become payable to the Trustee pursuant to the security arrangements described herein, there is some residual uncertainty as to whether the release of the Company from the withholding tax agent obligation under the Law No. 97-FZ would be applicable. There is a potential risk that Russian withholding tax in respect of interest on the relevant Loan payable to the Trustee will become subject to Russian withholding tax at the rate of 20 percent (or such other tax rate as may be effective at the time of payment) or Russian personal income tax at the rate of 30 percent (or such other tax rate that may be effective at the time of payment). Further it is not expected that the Trustee will, or will be able to, claim the exemption from or the reduction in the standard Russian withholding tax rate applicable to interest based on the applicable double tax treaty under such circumstances. In addition, while some of the Bondholders that are foreign persons not residing in Russia for tax purposes might be eligible for the exemption from or the reduction in standard Russian withholding tax rate or Russian personal income tax rate, as the case may be, under the applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent that they are applicable and could be relied upon by these Bondholders, there is no assurance that the respective treaty relief will be available to them (and, particularly, to the foreign individuals due to difficulties related to the advance tax relief. Please see “*Taxation—Russian Federation*”) in practice under such circumstances.

If interest payable on any Loan becomes subject to Russian withholding tax, the Company will be obliged (subject to certain conditions) under the terms of the Loan Agreement to increase the amounts payable by it under the relevant Loan (“**gross up**”) as may be necessary to ensure that the net amount of payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding. It is currently unclear, however, whether provisions of the Loan Agreement obliging the Company to gross up interest payable on the Loan will be enforceable under



the Russian law as currently in effect. If the Company fails to increase interest payable on the relevant Loan, such failure will constitute an Event of Default pursuant to the Loan Agreement.

***Payments made upon execution of the Guarantee may become subject to Russian withholding tax or Russian personal income tax, as may be applicable***

According to the Deed of Guarantee, the payments under the Guarantee will be made by the Guarantor directly to the Trustee. Generally, no Russian withholding tax obligations should arise upon the execution of the Guarantee by the Guarantor in respect of amounts payable to the Trustee by virtue of the exemption envisaged by the Law 97-FZ, according to which payments made in favour of foreign legal entities upon the execution of the guarantee or suretyship granted in connection with the issued bonds should be released from tax agent obligations with respect to such payments provided that certain criteria are all simultaneously satisfied. Please see “*Taxation—Russian Federation*”.

However, if the Bondholders as the ultimate beneficiaries of any sums payable under the Guarantee are deemed to be the recipients of income under the Guarantee for Russian tax purposes, the Russian tax treatment of the payments in question could be different.

In particular, it is unclear whether the above exemption would be available in practice to all Bondholders who are foreign legal entities, as based on the literal interpretation of the Law No. 97-FZ. Although this was not the intention of this legislative initiative, it may be argued that the release in question should only apply to Bondholders who are foreign legal entities and who are tax residents in the countries which have concluded a double tax treaty with Russia (provided that those are able to confirm their tax residency status in these countries). In connection with this, there is a risk that the release would arguably not apply to the payments under the Guarantee due to the Bondholders who are foreign legal entities not residing for tax purposes in countries that have concluded a double tax treaty with Russia and the Bondholders who, though reside in such countries, are not able to confirm their tax residency status there. Under such circumstances, the tax treatment of payments under the Guarantee will need to be determined on the basis of the Russian domestic tax legislation.

It is not, however, entirely clear how payments by the Guarantor to the respective Bondholders following the enforcement of the Guarantee will be treated for Russian withholding tax purposes. If their tax treatment follows the exact nature of each particular obligation fulfilled by the Guarantor under the Guarantee, Russian withholding tax at the rate of 20 percent (or such other tax rate as could be effective as of the date of execution of the Guarantee) may potentially apply to the portion of payment relating to repayment of principal of the Bonds. Otherwise, if such payments are treated as other similar Russian source income (irrespective of the nature of the guaranteed obligations), the Russian tax authorities, if they are successful in proving such qualification, could subject these payments to Russian withholding tax at the rate of 20 percent (or such other rate as may be effective at the time of execution of the Guarantee).

Payments made by the Guarantor under the Guarantee due to the Bondholders who are individuals not qualifying as Russian tax residents may be considered as Russian source income. In this case, depending on how these payments would be effected, either the full amount of the payment or a portion of such payment relating to interest on the Bonds could become subject to Russian personal income tax at the rate of 30 percent (or such other tax rate which could be effective as of the date of execution of the Guarantee).

Under such circumstances the Guarantor may be obliged to withhold Russian personal income tax from payments under the Guarantee due to such Bondholders. In case the Guarantor does not withhold the amounts of the applicable Russian personal income tax under such circumstances, the respective Bondholders will have to pay the tax individually on the basis of personal income tax returns to be submitted by them to the Russian tax authorities.

Although technically Russian personal income tax due could be reduced or eliminated based on provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Bondholder which is an individual not qualifying as a tax resident in Russia, subject to timely compliance by that Bondholder with the treaty clearance formalities, in practice such Bondholders may not be able to obtain the advance treaty relief under such circumstances, whilst obtaining a refund of Russian personal income tax withheld at source could be extremely difficult, if not impossible. Please see “*Taxation – Russian Federation*”.

If payments under the Guarantee become subject to Russian withholding tax or deduction for any taxes, duties, assessments or governmental charges of any nature (as a result of which the

Guarantors would have to reduce payments made under the Guarantee by the withheld amount), the Guarantors will be obliged (subject to certain conditions) to increase payments under the Guarantee so as to result in the receipt by the Trustee acting on behalf of the Bondholders of such amounts as would have been received by it if no such withholding or deduction had been required (subject to certain limitations. As a result, the Company could incur expenses well in excess of the amount due to the Bondholders. The Company can give no assurance that its obligation to pay the additional amounts associated with Russian withholding tax would be enforceable under Russian law.

***Sale or other disposal of the Bonds in Russia by a non resident Bondholder who is an individual may become subject to Russian personal income tax reducing the value of the Bonds***

Where proceeds from the sale or other disposal of the Bonds are deemed to be received from a source within Russia by a Bondholder, who is an individual not qualifying as a Russian tax resident for the purpose of Russian personal income tax, Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of such sale or other disposal) will apply to the gross amount of the sales or other disposal proceeds realised upon the sale or other disposal of the Bonds decreased by any available duly documented cost deductions (including the acquisition cost of the Bonds and other documented expenses related to the acquisition, holding and sale or other disposal of the Bonds), provided that the documentation supporting cost deductions is provided to the person obliging to calculate and withhold Russian personal income tax in a timely manner. Furthermore, sales or other disposal proceeds attributable to accrued interest, if deemed to be received by such Bondholders from Russian sources, can be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as could be effective at the time of such sale or other disposal), even if the sale or other disposal results in a loss.

Although Russian personal income tax rate may technically be reduced or eliminated under provisions of an applicable double tax treaty concluded between Russia and the country of tax residency of a particular Bondholder, subject to timely compliance by that Bondholder with the respective treaty clearance formalities in practice. Bondholders who are individuals not residing in Russia for tax purposes may not be able to obtain the advance treaty relief in relation to sales or disposal proceeds and/or accrued interest income, as may be relevant, received from a source within Russia, whilst obtaining a refund of Russian personal income tax that was excessively withheld in relation to this income could be extremely difficult, if not impossible. Furthermore, even though currently the Russian Tax Code is typically interpreted such as only a Russian asset manager or broker, or another person (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia) acting under an agency agreement, a brokerage service, an agency, a commission or a commercial mandate agreement and carrying out operations for the benefit of a non resident individual is required to withhold Russian personal income tax from payments associated with the sale or other disposal of securities made to such individuals, there is no guarantee that other Russian companies or foreign companies with a permanent establishment or another registered presence in Russia or individual entrepreneurs located in Russia would not seek to withhold Russian personal income tax under these circumstances.

The imposition or the possibility of imposition of Russian personal income tax could adversely affect the value of the Bonds.

**RISKS RELATING TO THE OFFERING, THE BONDS AND THE GDRS**

***The Bonds may not have an active trading market, which may have an impact on the value of the Bonds***

The Bonds have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although it is expected that the Bonds will be admitted to trading on the London Stock Exchange after the Closing Date, there may be little or no secondary market for the Bonds. Even if a secondary market for the Bonds develops, it may not provide significant liquidity and it is expected that transaction costs in any secondary market would be high. As a result, the difference between bid and ask prices for the Bonds in any secondary market could be substantial and the value of the Bonds could be affected.

***The price of emerging market debt is subject to substantial volatility***

The markets for emerging market debt have been subject to disruptions on account of the global financial crisis that have caused substantial volatility in the prices of securities similar to the

Bonds. There can be no assurance that the market for the Bonds will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Bonds.

***Holders of the Bonds will bear the risk of fluctuation in the price of the GDRs***

The market price of the Bonds is expected to be affected by fluctuations in the market price of the GDRs, and it is impossible to predict whether the price of the GDRs will rise or fall. Trading prices of the GDRs will be influenced by, among other things, the financial position of the Guarantor, the results of operations and political, economic, financial and other factors. Any decline in the price of the GDRs may have an adverse effect on the market price of the Bonds.

Future issues or sales of the GDRs may significantly affect the trading price of the Bonds or the GDRs. The future issue of GDRs or ordinary shares by the Guarantor or the disposal of GDRs or ordinary shares by any of the major shareholders of the Guarantor, or the perception that such issues or sales may occur, may significantly affect the trading price of the Bonds and the GDRs. There can be no assurance that the Guarantor will not issue GDRs or ordinary shares or that any of its major shareholders will not dispose of, encumber, or pledge their GDRs, ordinary shares or related securities.

***Holders of the Bonds may be unable to recover losses beyond the limited amount of the Guarantee***

The total amount of the Guarantor's liability for any and all obligations assumed by it in respect of or in connection with the Guarantee will not in any case exceed U.S.\$1,350,000,000 in aggregate. While the limited Guarantee is multiple times the issuance amount of the Bonds and the Issuer believes is sufficient to cover Bondholders fully, there can be no assurance that such amount will not in all circumstances exceed the limit or that any fungible issues will be accompanied by a corresponding increase in the limited amount. As a result of any of the foregoing, Bondholders would be unable to recover for any losses in excess of the limited amount.

***The Bonds may only be transferred in accordance with the procedures of the depositaries in which the Bonds are deposited.***

Except in a limited number of cases in which the Bonds may be converted to individual form under the Trust Deed, the Bonds will be issued only in global form with interests therein held through the facilities of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Bonds. Because Euroclear and Clearstream, Luxembourg can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear and/or Clearstream, Luxembourg systems may be impaired.

***The Bonds are subject to restrictions on transfer.***

The Bonds are being offered and sold in reliance on Regulation S. Each purchaser of the Bonds will be deemed to have represented to the Issuer that it is not a US person within the meaning of Regulation S and is not acquiring Bonds for the account or benefit of any US person.

***The Issuer can redeem the Bonds at its option, which may affect the value of the Bonds.***

The Issuer has the option to redeem the Bonds prior to their scheduled maturity dates in certain circumstances as described in Condition 9 of the Terms and Conditions of the Bonds. Even if the Issuer does not exercise its option to redeem the Bonds, its ability to do so may adversely affect the value of the Bonds.

***There are restrictions on conversion rights***

The Terms and Conditions of the Bonds provide in Condition 7(2)(i) that converting holders must give certain certifications as to Regulation S under the Securities Act in order to receive GDRs. Bondholders who are in the United States or who are US persons (within the meaning of Regulation S) may not be able to give such confirmations and may not be eligible to receive GDRs on the exercise of their conversion rights.

***The Issuer is a special purpose entity entirely dependant on the Guarantor in order to meet its obligations under the Bonds.***

The Issuer has no business other than in relation to the Bonds and has lent the proceeds of the issue of the Bonds to the Guarantor. The Issuer's net assets are comprised of the amounts due to it from the Guarantor, and the Group's subsidiaries, in respect of any inter-company loans, to meet its obligations to pay interest and other amounts payable in respect of the Bonds. The Issuer is accordingly entirely dependent on the Guarantor, including the Group's subsidiaries, in respect of its ability to make interest and principal payments on the Bonds. The Issuer's ability to fulfil its obligations under the Bonds may therefore be adversely affected.

***Voting rights with respect to the ordinary shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of Russian law***

The holders of the GDRs will have no direct voting rights with respect to the ordinary shares represented by the GDRs. They will be able to exercise voting rights with respect to the ordinary shares represented by the GDRs only in accordance with the provisions of the Terms and Conditions of the GDRs as set out in the deposit agreement entered into between the Company and the depositary (the "**Depositary**") for the Company's GDR programme (the "**Deposit Agreement**") and the relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of the holders of the GDRs to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Guarantor is required under its charter, in compliance with the Joint Stock Companies Law, to notify shareholders at least 20 days in advance of any General Shareholders' Meeting (with the exception of certain limited circumstances, for which a notice period of at least 30 days is required) and at least 70 days in advance of an Extraordinary General Shareholders' Meeting to elect directors or a General Shareholders' Meeting, whether annual or extraordinary, to pass upon certain other matters. The Company's shareholders will receive notice directly from the Company and they will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney. See "*Description of the GDRs—Voting Rights*".

The holders of the GDRs, by comparison, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by the Company in writing in a timely manner and at the Company's expense, and provided there are no U.S., U.K. or Russian legal prohibitions (including, without limitation, the rules of the London Stock Exchange or the rules of MICEX) to distribute to the holders of the GDRs notice of the meeting, copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which instructions may be given by holders of the GDRs. To exercise their voting rights, the holders of the GDRs must then instruct the Depositary how to vote the ordinary shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for holders of the GDRs than for holders of the ordinary shares, and the Company cannot assure the holders of the GDRs that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. The GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the ordinary shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all of the holders of the GDRs to vote the ordinary shares in the same manner. The holders of the GDRs may thus have significant difficulty in exercising voting rights with respect to the ordinary shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of General Shareholders' Meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs with respect to shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights with respect to an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (i) vote the ordinary shares represented by their GDRs on a cumulative basis if such votes are split and split votes are rejected by the Company or the Depositary's custodian for the Company's ordinary shares or are held invalid by the Russian courts, (ii) introduce proposals for the agenda of shareholders' meetings or request that a

shareholders' meeting be called or (iii) nominate candidates for the Board of Directors or certain other of the Company's governance bodies. If holders of GDRs wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the ordinary shares and thus become the owners of the ordinary shares on the Company's share register.

From 1 January 2013, Russian law will impose additional conditions for the exercise of voting rights in respect of the ordinary shares underlying the GDRs. See "*—The Amendments on DR Programmes, once in force, may complicate the exercise of rights to, and the ability to derive benefits from the underlying ordinary shares and could expose investors to a risk of suspension of the GDRs programme*" below.

***Under applicable Russian law, the Depositary may be deemed the beneficial owner of the ordinary shares underlying the GDRs, and a Russian court could order the seizure of such ordinary shares in legal proceedings against the Depositary***

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as holders of GDRs. In these jurisdictions, shares held by the depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Current Russian law may not, however, recognise a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying GDRs and, accordingly, may not recognise a GDR holders' beneficial ownership in such shares.

Thus, in proceedings brought against the Depositary, whether or not related to the ordinary shares underlying the GDRs, Russian courts may treat those underlying ordinary shares as the assets of the Depositary, open to seizure or arrest.

In the past, lawsuits were filed against depositaries seeking the seizure of various Russian companies' shares represented by GDRs issued by that depositary. However, these cases were dismissed. In the event that a lawsuit seeking the seizure or arrest of the ordinary shares underlying the GDRs were to be successful in the future against the Depositary, and the ordinary shares underlying the GDRs were to be seized or arrested, the holders of the GDRs involved would lose their rights to such underlying ordinary shares and all or part of the money invested in them.

From 1 January 2013, amendments to the Federal Law of 22 April 1996, No. 39-FZ "On the Securities Market", as amended (the "**Securities Market Law**") adopted by Federal Law No. 415-FZ of 7 December 2011 (the "**Amendments on DR Programmes**") will preclude certain enforcement measures on ordinary shares underlying the GDRs in proceedings against the Depositary in the Russian Federation. Once the Amendments on DR Programmes enter into force and the underlying ordinary shares are re-recorded on the so-called "depo" account of a depositary programme in the name of the Depositary, such ordinary shares may not be attached to enforce the obligations of the Depositary. See "*—The Amendments on DR Programmes, once in force, may complicate the exercise of rights to, and the ability to derive benefits from, the underlying ordinary shares and could expose investors to a risk of suspension of the GDRs programme*", below.

***The Amendments on DR Programmes, once in force, may complicate the exercise of rights to, and the ability to derive benefits from, the underlying ordinary shares and could expose investors to a risk of suspension of the GDRs programme***

The Amendments on DR Programmes will enter into force on 1 January 2013 (except for certain provisions that took effect on 1 July 2012), and they will considerably change the regulatory regime of both future and already established depositary share programmes of Russian issuers. However, due to a lack of official interpretive guidance regarding the Amendments on DR Programmes, the effect of such changes on the Company, the Depositary and prospective GDR holders remains unclear.

The Amendments on DR Programmes will change the existing system of recording the Depositary's rights to the ordinary shares underlying the GDRs. From 1 January 2013, the underlying ordinary shares will no longer be recorded at the Depositary's "owner's" account, with the custodian holding a "depo" account of a nominee in the Company's shareholder register. Instead, the underlying ordinary shares will need to be re-recorded at the "depo" account of a depositary programme, opened with a qualified Russian custodian who, in turn, holds a "depo" account of a nominee with the central

depository (the latter is expected to begin operations later in 2012). The Company cannot offer any assurance to prospective investors that the process of re-recording the underlying ordinary shares, as required by the Amendments on DR Programmes, will not result in technical disruptions to operations with the GDRs, including the deposit and withdrawal of the underlying ordinary shares, at or around the time of such re-recording.

Under the Amendments on DR Programmes, the Depository will no longer be treated for the purposes of the Joint Stock Companies Law as a holder of title to the underlying ordinary shares, and therefore the Depository will lose its status as an ordinary shareholder of the Company. As a result, the Depository may no longer be able to exercise rights normally enjoyed by ordinary shareholders (other than voting and dividend rights, which are granted to the Depository pursuant to the Amendments on DR Programmes). For example, the Depository may not benefit on behalf of the GDR holders from a pre-emptive right in cases set by the Joint Stock Companies Law for the benefit of ordinary shareholders and/or a right to participate in share buybacks conducted by the Company.

The Amendments on DR Programmes will also impose disclosure and reporting requirements on the Depository and “depository receipts owners” (“*владельцы*”) (the scope of this term, as used in the Amendments on DR Programmes, is not entirely clear) as a condition to receiving dividends and exercising voting rights in respect of the ordinary shares underlying the GDRs.

From 1 January 2013, the Depository will be able to vote at the General Shareholders’ Meeting only on instructions from GDR owners for whom information has been provided to the Company (including the corresponding number of the underlying ordinary shares owned) and will only be able to receive dividends for the benefit of such GDR owners. See “*Description of Share Capital and Certain Requirements of Russian Law—Description of Share Capital—Dividends*”.

In addition, since 1 July 2012, the Amendments on DR Programmes oblige the Company to prepare quarterly a list of the GDR owners (including the number of the GDRs held by each GDR owner), and the GDR owners must provide all necessary information for such list (which is expected to be done through the Depository). Further, the Company will be obliged to provide these lists to the FSFM, courts, certain investigative authorities and divisions of the Ministry of Internal Affairs upon demand.

Currently, pending the adoption of relevant regulations by the FSFM, it is not clear whether the term “depository receipts owner” means a holder registered on the records of the Depository, a securities intermediary or a beneficial owner of a GDR for the purposes of the Amendments on DR Programmes. As a result, the scope of the above reporting obligations, which may affect the rights of the GDR holders, also remains uncertain. The Company cannot offer assurance to prospective investors that the Amendments on DR Programmes and the pending regulations by the FSFM will be compatible with the previously customary infrastructure for depository receipts programmes (such as pro rata exercise of voting and dividends rights to the underlying ordinary shares by depository receipts holders via securities intermediaries and the Depository) or foreign confidentiality regulations, or that the new requirements will not impose additional burdens upon the Depository, prospective investors or their respective securities intermediaries such that they would make investments in the GDRs less attractive. It also remains unclear how the authorities will use their new powers to require information on the GDR owners.

In addition, effective 1 July 2012, the FSFM has the power to require the Depository to cure any infringement of the Amendments on DR Programmes (including, potentially, a reporting violation by any GDR holder). A failure to cure can lead to the suspension or limitation by the FSFM of all or part of the operations with the “depo” account of a depository programme for up to six months. It is unclear how the FSFM will use these new regulatory powers.

***GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depository***

Under Russian tax law, dividends paid to a non-resident holder of the ordinary shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organisations and individuals. Russian tax rules applicable to the holders of the GDRs are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005-2007, the Russian Ministry of Finance expressed an opinion that holders of depository receipts should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares subject to compliance with the treaty clearance

procedures. 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, there can be no assurance how the Russian tax authorities will ultimately treat the GDR holders in this regard in practice.

***Investors in the Bonds may not be adequately protected against corporate restructurings or highly leveraged transactions.***

The terms of the Bonds do not contain provisions that would afford investors protection in the event of a decline in the Company's credit quality resulting from highly leveraged or other similar transactions in which it may engage. The Company is also not limited in the amount of other indebtedness or other liabilities that it may incur or securities that it may issue. Investors do not have the right to require the Company to repurchase or redeem the Bonds in the event of many types of highly leveraged transactions.

***The Company operates through its subsidiaries, which effectively subordinates claims under its guarantee of the Bonds to the claims of creditors of its subsidiaries.***

The Company will guarantee the Bonds, but the Bonds will not be guaranteed by the Company's subsidiaries. Its operations are, to a significant extent, conducted through our subsidiaries. Accordingly, the Company is and will be dependent on its subsidiaries' operations to service its indebtedness, including its guarantee of the Bonds. The guarantee is effectively subordinated to the claims of all of the creditors, including trade creditors, of its subsidiaries. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of the Company, creditors of such subsidiary generally will have the right to be paid in full before any distribution will be made to the Company or the holders of the Bonds.

## TERMS AND CONDITIONS OF THE BONDS

*The following, other than words in italics, is the text of the Terms and Conditions (subject to amendment) of the Bonds which will appear on the reverse of the definitive certificates evidencing the Bonds.*

The issue of the U.S.\$475,000,000 1.00 per cent. bonds due 2017 (the “Bonds”, which expression shall, except where otherwise indicated, include any further bonds issued in accordance with Condition 20 and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of Holdgrove Limited (the “Issuer”) dated 19 September 2012. The Bonds are convertible into GDRs (as defined in Condition 7(A)(v) below) representing ordinary Shares (as defined in Condition 7(A)(v) below) of OAO Severstal (the “Guarantor”). The Guarantor has guaranteed the payment of all sums payable by the Issuer under the Trust Deed and the Bonds and the performance by the Issuer of all of its obligations in respect of the exercise of Conversion Rights (as defined in Condition 7(A)(i)) (the “Guarantee”), subject as provided in Condition 1(B)(ii), pursuant to the terms of a Deed of Guarantee made between the Guarantor and Citibank N.A., London Branch (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “Bondholders”) dated 24 September 2012 (the “Deed of Guarantee”). The Bonds are constituted by a Trust Deed (the “Trust Deed”) dated 24 September 2012 made between the Issuer and the Trustee. The Issuer and the Guarantor have entered into an Agency Agreement (the “Agency Agreement”) dated 24 September 2012 with the Trustee, Citigroup Global Markets Deutschland AG as registrar (the “Registrar”, which expression shall include any successors as such under the Agency Agreement), Citibank N.A., London Branch as principal paying, conversion and transfer agent (the “Principal Agent”), the other paying, conversion and transfer agents and the other agents appointed thereunder (together with the Principal Agent, the “Agents”, which expression shall include any successors as such under the Agency Agreement) in relation to the Bonds. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement. The GDRs have been or will be issued pursuant to the Regulation S Deposit Agreement dated as of 26 September 2006 (the “Deposit Agreement”) among the Guarantor, Deutsche Bank Trust Company Americas as depositary (the “Depositary”) and owners and beneficial owners of GDRs. Copies of the Trust Deed, the Deed of Guarantee, the Agency Agreement and the Deposit Agreement are available for inspection by Bondholders at the registered office of the Trustee being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office(s) of each of the Agents. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of all the provisions of the Deposit Agreement and the Agency Agreement applicable to them.

In these Conditions, unless the context requires otherwise, words and expressions have the meanings given to them in Condition 24 (*Definitions*).

### 1. STATUS AND GUARANTEE

#### (1) *Status*

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 below) unsecured obligations of the Issuer and shall at all times rank and without any preference among themselves. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3 below) unsecured obligations of the Guarantor. Subject to Condition 3 below, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Bondholders against them under the Bonds and the Guarantee, respectively, rank in right of payment at least *pari passu* with the claims of all their other unsecured and unsubordinated creditors save those whose claims are preferred by any mandatory operation of law.

#### (2) *Guarantee*

- (i) The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the payment when due of all sums payable by the Issuer under the Trust Deed and the Bonds and the performance by the Issuer of all of its obligations in respect of the exercise of Conversion Rights, subject as provided in paragraph (ii).



- (ii) The total amount of the Guarantor's liability for any and all obligations assumed by it in respect of or in connection with the Guarantee will not in any case exceed U.S.\$1,350,000,000 in aggregate.
- (iii) The Guarantor has undertaken in the Deed of Guarantee that so long as any of the Bonds remain outstanding (as defined in the Trust Deed) it will not take any action for the liquidation or winding-up of the Issuer.

## **2. FORM, DENOMINATION AND TITLE**

*Subject as provided below, the Bonds will be represented initially by a global certificate in registered form (the "Global Certificate"). The Global Certificate will be registered in the name of a common nominee for Euroclear Bank S.A./N.V ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Global Certificate will be held by a depositary for Euroclear and Clearstream, Luxembourg. Interests of participants in Euroclear and Clearstream, Luxembourg in the Bonds will be represented by book entries in the records of Euroclear and Clearstream, Luxembourg.*

### **(1) Form and denomination**

The Bonds are issued in registered form, serially numbered, in principal amounts of U.S.\$200,000 or integral multiples thereof. A bond certificate (a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will have an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar.

*Individual Certificates in respect of book-entry interests in any Bonds will not be issued in exchange for an interest in the Global Certificate, except in the very limited circumstances described in the Global Certificate.*

### **(2) Title**

Title to the Bonds passes by registration in the register (the "Register") which the Issuer will cause to be kept at the specified office of the Registrar outside the United Kingdom and upon which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related Certificates as appropriate) or anything written on it or on the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by the Issuer, the Guarantor, the Trustee or the Agents.

*Title to book-entry interests in the Bonds passes by book-entry registration of the transfer in the records of Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with their respective procedures. Book-entry interests in the Bonds may be transferred within Euroclear and within Clearstream, Luxembourg and between Euroclear and Clearstream, Luxembourg in accordance with procedures established for these purposes by Euroclear and Clearstream, Luxembourg.*

## **3. NEGATIVE PLEDGE**

So long as any of the Bonds remain outstanding (as defined in the Trust Deed) neither the Issuer nor the Guarantor will, and the Guarantor will procure that none of its Material Subsidiaries will, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, without in any such case at the same time or prior thereto procuring that the Bonds or, as the case may be, the Guarantee are secured equally and rateably with such Indebtedness (for so long as such Indebtedness is so secured) or procuring that the Bonds have the benefit of such other guarantee, indemnity or other like obligations or such other security as the Trustee in its discretion shall deem to

be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

#### **4. TRANSFERS OF BONDS; ISSUE OF CERTIFICATES**

##### **(1) *Transfers***

Subject to the terms of the Agency Agreement and to Conditions 4(C) and 4(D), a Bond may be transferred by depositing the Certificate issued in respect of that Bond (with the form of transfer in respect thereof duly completed, executed and duly stamped where applicable) at the specified office of the Registrar or any Agent. No transfer of a Bond will be valid unless and until registered on the Register. A Bond may only be registered in the name of, and transferred only to, one named person.

##### **(2) *Delivery of new Certificates***

Each new Certificate to be issued upon a transfer of Bonds will, within three business days of receipt by the Registrar or the relevant Agent, as the case may be, of the original Certificate and a duly completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds to the address specified in the form of transfer.

Where only some of the Bonds in respect of which a Certificate is issued are to be transferred, converted or redeemed, a new Certificate in respect of the Bonds not so transferred, converted or redeemed will, within three business days of deposit or surrender of the original Certificate with or to the Registrar or the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted or redeemed to the address of such holder appearing on the register of Bondholders.

For the purposes of this Condition 4, “business day” shall mean a day on which banks are open for general business in the city in which the specified office of the Registrar or Agent with whom a Certificate is deposited in connection with a transfer is located.

##### **(3) *Formalities free of charge***

Registration of a transfer of Bonds will be effected without charge by or on behalf of the Issuer, any of the Agents or the Registrar subject to (i) payment (or the giving of such indemnity or security or pre-funding as the Issuer or any of the Agents or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application.

##### **(4) *Closed periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of the Accreted Principal Amount on the Bonds; (ii) after the Certificate in respect of such Bond has been deposited for conversion pursuant to Condition 7; (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 8(A)); or (iv) in respect of which a Bondholder has exercised its right to require redemption pursuant to Condition 9(D).

##### **(5) *Regulations***

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds set forth in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

#### **5. COVENANTS**

##### **(1) *Mergers***

So long as any of the Bonds remain outstanding (i) the Guarantor shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) the Guarantor shall ensure that, without the prior written consent of the Trustee or an Extraordinary Resolution of the Bondholders, no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia, participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction) if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction is reasonably likely to have a Material Adverse Effect.

(2) ***Payment of Taxes***

So long as any of the Bonds remain outstanding, the Guarantor shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Guarantor and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Guarantor or any of its Material Subsidiaries: provided, however, that none of the Guarantor nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of the Guarantor comply, as consistently applied or other appropriate provision has been made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$100,000,000.

**6. INTEREST**

The Bonds bear interest from (and including) the Closing Date at the rate of 1.00 per cent. per annum payable semi-annually in arrear in equal instalments on 24 March and 24 September in each year (each an “Interest Payment Date”), commencing with the Interest Payment Date falling on 24 March 2013.

Each Bond will cease to bear interest (a) where the Conversion Right (as defined in Condition 7(A)(i)) shall have been exercised in respect of that Bond by the relevant Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date (as defined in Condition 7(B)(i)) or, if the Conversion Date falls on or prior to the first Interest Payment Date, the Closing Date (subject in any such case as provided in Condition 7(B)(iv)) or (b) from the due date for redemption thereof, unless, upon due presentation, payment of the Accreted Principal Amount is improperly withheld or refused or unless default is otherwise made in respect of any such payment. In the event of such withholding, refusal or default under (b) above, interest will continue to accrue as provided in these Conditions (after as well as before any judgement) up to but excluding the earlier of (x) the date on which, upon further presentation, payment in full of the Accreted Principal Amount is made and (y) the day after notice is duly given to the holder of such Bond (in accordance with Condition 18) that upon further presentation of such Bond being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made.

The amount of interest payable in respect of each Bond for any period which is not an Interest Period shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, where “Interest Period” means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

**7. CONVERSION**

(1) ***Conversion Right***

(i) *Conversion Period*

Subject to and as provided in these Conditions, each Bondholder shall have the right (the "Conversion Right") to convert any Bond into GDRs representing Shares (both as defined in Condition 7(A)(v)).

Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 5 November 2012 up to the close of business (at the place where the Certificate representing the Bond is deposited for conversion) on the date seven dealing days prior to the Final Maturity Date or if such Bond shall have been called for redemption prior to the Final Maturity Date, then up to the close of business (at the place aforesaid) on the date seven dealing days prior to the date fixed for redemption thereof.

On exercise of the Conversion Right, the number of GDRs to be transferred to the converting Bondholder will be determined by dividing the principal amount of the Bond to be converted by the Conversion Price in effect at the Conversion Date (both as hereinafter defined).

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 11 or (ii) in respect of a Bond in respect of which the relevant holder has exercised its right to require the Issuer to redeem pursuant to Condition 9(D).

Conversion Rights may not be exercised by a Bondholder in circumstances where the relevant Conversion Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).

The period during which Conversion Rights may be exercised by a Bondholder pursuant to these Conditions (including Condition 7(A)(iv)) is referred to as the "Conversion Period".

(ii) *Fractions of GDRs*

If a Certificate or Certificates in respect of more than one Bond shall be deposited for conversion at any one time by the same holder and the GDRs to be transferred on such conversion are to be transferred to the same person, the number of GDRs to be transferred upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds to be converted. Fractions of GDRs will not be transferred on conversion (fractions being rounded down to the nearest whole number of GDRs) and no cash adjustments will be made in respect thereof.

(iii) *Conversion Price*

The price at which GDRs will be transferred and delivered to Bondholders upon conversion (the "Conversion Price") will initially be U.S.\$19.08 per GDR but will be subject to adjustment in the manner provided in Condition 7(C)..

(iv) *Revival after Default*

Notwithstanding the provisions of paragraph (i) of this Condition 7(A) if the Issuer, failing whom the Guarantor, shall default in making payment in full in respect of any Bond which shall have been called for redemption pursuant to Condition 9(B) or (C) prior to the Maturity Date on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the Certificate representing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders or, if earlier, the Final Maturity Date.

(v) *Definition of "Shares" and "GDRs"*

As used in these Conditions, “Shares” means (i) shares of the class of share capital of the Guarantor which, at the Closing Date, is designated as ordinary shares of the Guarantor, together with shares of any class or classes resulting from any subdivision, consolidation or re-classification thereof, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Guarantor; and (ii) fully-paid and non-assessable shares of any class or classes of the share capital of the Guarantor issued after the Closing Date which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Guarantor.

As used in these Conditions, the expression “GDRs” means Regulation S GDRs representing Shares and issued pursuant to the Deposit Agreement, each such GDR representing as at the Closing Date one Share.

(2) ***Conversion Procedure***

(i) *Conversion Notice*

To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Agent at which the Certificate representing the Bond is deposited for conversion a notice of conversion (a “Conversion Notice”) in duplicate in the form (for the time being current) obtainable from the specified office of any Agent, together with the relevant Certificate and any amounts required to be paid by the Bondholders as described below.

A Bondholder exercising Conversion Rights shall, as a pre-condition to receiving GDRs, also be required to comply with any relevant provisions of the Deposit Agreement, including the provision of such confirmations, certificates and undertakings and compliance with such other formalities as may be required pursuant to the Deposit Agreement or requested by the Depositary (the “Deposit Requirements”).

If a converting Bondholder shall fail to comply with any Deposit Requirements, the purported exercise of Conversion Rights shall be invalid.

Where Conversion Rights are exercised in the circumstances specified in Condition 7(A)(iv) it shall not be necessary to deposit the relevant Certificate with an Agent as, aforesaid if such Certificate shall have been deposited, and remain deposited, with an Agent for the purposes of the relevant redemption.

A Certificate and Conversion Notice deposited with an Agent outside normal business hours or on a day which is not a business day at the place of the specified office of the relevant Agent shall for all purposes be deemed to have been deposited with such Agent during normal business hours on the next following such business day.

A Bondholder exercising a Conversion Right must pay directly to the relevant authorities any taxes (including capital, stamp, issue and registration and transfer taxes and duties) arising on conversion (other than any taxes (including capital, stamp, issue and registration and transfer taxes and duties) payable in the Republic of Cyprus, the Russian Federation, the United Kingdom, Luxembourg or Belgium in respect of the transfer of any GDRs, which shall be paid by the Issuer, failing whom the Guarantor). Such Bondholder must also pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with such conversion.

The Trustee shall not be responsible for determining whether such taxes (including capital, stamp, issue and registration and transfer taxes and duties) are payable or the amount thereof and neither of them shall be responsible or liable for any failure by the Issuer or the Guarantor to pay such taxes (including capital, stamp, issue and registration and transfer taxes and duties).

The Issuer, failing whom the Guarantor, will pay all costs, fees and expenses, including, where relevant, those of the Depositary and any custodian, in connection with the delivery of GDRs on exercise of Conversion Rights.

The date on which any Certificate representing the Bond and the Conversion Notice (in duplicate) relating thereto are deposited with an Agent or, if later, on which all conditions precedent to the conversion thereof are fulfilled is hereinafter referred to as the "Deposit Date" applicable to such Bond and must fall during the Conversion Period.

The request for conversion shall be deemed to have been made at 23.59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Moscow on which such time in London falls, is herein referred to as the "Conversion Date" applicable to such Bond).

A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Issuer.

(ii) *GDR delivery and GDR issues*

Following each Conversion Date the Issuer, failing whom the Guarantor, will ensure that all necessary steps are taken for the due transfer and delivery to the Bondholders of the GDRs to which each Bondholder is entitled on conversion of the relevant Bonds.

Delivery of GDRs will be made in book-entry form through the facilities of Euroclear and Clearstream, Luxembourg to such account with Euroclear or Clearstream, Luxembourg as specified by the relevant Bondholder in the relevant Conversion Notice by not later than 15 London and Cyprus business days following the relevant Conversion Date.

Where there is any change to the number of Shares represented by each GDR, such modification shall be made to the operation of the adjustment provisions as is appropriate to give the intended result.

References in this Condition 7 to the issue of Shares or the issue or grant by way of rights, options, warrants or other rights to subscribe for or purchase any Shares shall be construed to include circumstances where such Shares are to be represented by and/or such issue or grant is made by the Guarantor in respect of GDRs issued or to be issued by the Depositary and representing such Shares, and the provisions of this Condition 7 shall be construed accordingly with such (if any) modifications as an Independent Financial Adviser shall determine to be appropriate, by reference, where appropriate, to the number of Shares represented by such GDRs.

If the Conversion Date in relation to any Bond is on or after a date on which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 7(C) and the relevant Conversion Date falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Price, the Issuer will ensure that all necessary steps are taken for the due transfer to the Bondholders of such number of GDRs as is equal to the excess of the number of GDRs which would have been required to be transferred on conversion of such Bond if the relevant retroactive adjustment had been given effect as at the said Conversion Date over the number of GDRs to be transferred pursuant to such conversion, and in such event and in respect of such additional GDRs references in this Condition 7(B)(ii) to the Conversion Date shall be deemed to refer to the date (the "Reference Date") upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively and notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period).

(iii) *Ranking and entitlement*

Shares represented by GDRs transferred to the Bondholders upon conversion of the Bonds will be fully paid and non-assessable and in all respects will rank pari passu with all other Shares in issue on the relevant Conversion Date (except for any right

excluded by mandatory provisions of applicable law) and such Shares will be entitled to all rights to the same extent as all other fully-paid and non-assessable Shares of the Guarantor. GDRs transferred and delivered to Bondholders upon conversion will be fully paid and will in all respects rank pari passu with the other such fully paid GDRs in issue on the relevant Conversion Date (except in any such case for any right excluded by mandatory provisions of applicable law) and, without prejudice to the provisions of the Deposit Agreement, the relevant Bondholder shall be treated as the holder thereof with effect from, and be entitled to all rights, distributions and entitlements relating to such GDRs in respect of which the record date or other due date for the establishment of the corresponding entitlement in respect of the Shares represented by such GDRs falls on or after, the relevant Conversion Date.

(iv) *Interest*

Except as provided below, no payment or adjustment will be made on conversion of Bonds for any interest otherwise accruing on converted Bonds from the Interest Payment Date immediately preceding the relevant Conversion Date, or if the relevant Conversion Date falls on or prior to the first Interest Payment Date, the Closing Date.

If any notice of redemption of any Bond is given pursuant to Condition 9(B) on or after the fifteenth business day in Moscow prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) (whether such notice is given before, on or after such record date) in respect of any dividend or distribution in respect of the Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue on Bonds which shall have been delivered for conversion by Bondholders pursuant to this Condition 7(B) and in any such case where the relevant Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date, in each case, from the preceding Interest Payment Date (or, if such Conversion Date falls on or prior to the first Interest Payment Date, from the Closing Date) to such Conversion Date. Any such interest shall be paid by the Issuer not later than 14 days after the relevant Conversion Date by transfer to the U.S. dollar account specified in the relevant Conversion Notice.

(3) ***Adjustments to Conversion Price***

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

(i) *Consolidation, reclassification or subdivision*

If and whenever there shall be a consolidation, reclassification or subdivision in respect of the Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B} \times \frac{C}{D}$$

where:

- A is the aggregate number of Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be;
- B is the aggregate number of Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be;
- C is the number of Shares represented by a GDR following or as a result or consequence of such consolidation, reclassification or subdivision in respect of the Shares; and
- D is the number of Shares represented by a GDR immediately prior to such

consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

(ii) *Capitalisation of profits or reserves*

If and whenever the Guarantor shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves, including any share premium account or capital redemption reserve, (other than (1) where any such Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive or (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B} \times \frac{C}{D}$$

where:

- A is the aggregate number of Shares in issue immediately before such issue of Shares;
- B is the aggregate number of Shares in issue immediately after such issue of Shares;
- C is the number of Shares represented by a GDR following or as a result or consequence of such issue of Shares; and
- D is the number of Shares represented by a GDR immediately prior to such issue of Shares.

Such adjustment shall become effective on the date of issue of such Shares.

(iii) *Dividends*

- (a) If and whenever the Guarantor shall pay or make any Dividend to the Shareholders where the ex- date in respect of which falls on or after the Closing Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Shares, GDRs or any depositary or other receipts or certificates representing Shares by or on behalf of the Guarantor or any Subsidiary of the Guarantor, by dividing the Fair Market Value of the aggregate Dividend by the number of Shares in issue immediately prior to such purchase, redemption or buy back, and treating as not being in issue any Shares, or any Shares represented by GDRs or other depositary receipts or certificates representing Shares, purchased, redeemed or bought back)



Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

“Effective Date” means, in respect of this paragraph (C)(iii), the first date on which the GDRs are traded on the Relevant Stock Exchange ex-the entitlement corresponding to the relevant Dividend or, in the case of a purchase, redemption or buy back of Shares, GDRs or any depositary or other receipts or certificates representing Shares, the date on which such purchase, redemption or buy back is made or in the case of a Spin-Off, the first date on which the GDRs are traded ex- the relevant Spin-Off on the Relevant Stock Exchange.

(b) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of “Dividend” and in the definition of “Fair Market Value”) be determined as at the Effective Date.

(iv) *Rights issues*

If and whenever the Guarantor shall issue Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Share which is less than 95 per cent. of the Current Market Price per Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue on the Effective Date;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights plus the additional consideration (if any) receivable upon (and assuming) the exercise of such options, warrants or rights at the initial subscription, purchase or acquisition price, would purchase at such Current Market Price per Share on the Effective Date; and
- C is the number of Shares to be issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (C)(iv), the first date on which the GDRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant rights, options or warrants relating to the Shares.

(v) *Issue of Securities to Shareholders*

If and whenever the Guarantor shall issue any Securities (other than Shares or options, warrants or other rights to subscribe for or purchase any Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Shares or options, warrants or other rights to subscribe for or purchase

Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the Effective Date; and
- B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (C)(v), the first date on which the GDRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant Securities, option or warrants relating to the Shares.

(vi) *Issue of Shares below Current Market Price*

If and whenever the Guarantor shall issue (otherwise than as mentioned in paragraph (C)(iv) above) wholly for cash or for no consideration any Shares (other than Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Shares) or issue or grant (otherwise than as mentioned in paragraph (C)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Shares (other than the Bonds and any further bonds issued pursuant to Condition 20 and forming a single series with the Bonds), in each case at a price per Share which is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before the issue of such Shares or the grant of such options, warrants or rights;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such Shares or, as the case may be, for the Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and
- C is the number of Shares to be issued pursuant to such issue of such Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (C)(vi), the date of issue of such Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) *Other issues*

If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity (otherwise than as mentioned in paragraphs (C)(iv), (C)(v) or (C)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 20 and forming a single series

with the Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Shares, and the consideration per Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such issue or grant;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares which may be issued or arise from any such redesignation;

*provided that* if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph (C)(vii), the “Specified Date”) such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this paragraph (C)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (C)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) *Modification of rights*

If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any further bonds issued pursuant to Condition 20 and forming a single series with the Bonds) as are mentioned in paragraph (C)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the proposals for such modification the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue on the dealing day immediately before such modification;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Share on the date of the first public announcement of the proposals for the relevant modification or, if lower, the existing conversion, exchange or subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser shall in good faith consider appropriate for any previous adjustment under this paragraph (C)(viii) or paragraph (C)(vii) above;

*provided that* if at the time of such modification (as used in this paragraph (C)(viii) the “Specified Date”) such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this paragraph (C)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date

“Effective Date” means, in respect of this paragraph (C)(viii), the date of modification of the rights of conversion, exchange or subscription, purchase or acquisition attaching to such Securities.

(ix) *Certain arrangements*

If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (C)(ii), (C)(iii), (C)(iv), (C)(vi) or (C)(vii) above or (C)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Share on the relevant dealing day) or under paragraph (C)(v) above) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the Effective Date; and
- B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Share.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (C)(ix), the first date on which the GDRs are traded on the Relevant Stock Exchange ex the entitlement corresponding to the relevant rights relating to the Shares.

(x) *Relevant Event*

If a Relevant Event shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Relevant Event Period the Conversion Price (the “Relevant Event Conversion Price”) shall be determined as set out below:

$$\text{RECP} = \frac{\text{OCP}}{1 + (\text{CP} \times \frac{c}{t})}$$

Where:

RECP	=	Relevant Event Conversion Price
OCP	=	Conversion Price in effect on the relevant Conversion Date
CP	=	Conversion Premium (45%; expressed as a fraction)
C	=	The number of days from (and including) the date the Relevant Event occurs to (but excluding) the Final Maturity Date; and
t	=	The number of days from (and including) the Closing Date to (but excluding) the Final Maturity Date.

(xi) *Other adjustments*

If the Guarantor (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 7(C) (even if the relevant circumstance is specifically excluded from the operation of paragraphs (C)(i) to (x) above), the Guarantor shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph (C)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

(xii) *Modifications*

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this Condition 7(C) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Guarantor, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be appropriate to give the intended result; and
- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be

appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once.

(xiii) *Calculation of consideration*

For the purpose of any calculation of the consideration receivable or pursuant to paragraphs (C) (iv), (vi), (vii) and (viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Shares issued for cash shall be the amount of such cash;
- (b) (I) the aggregate consideration receivable or price for Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (II) the aggregate consideration receivable or price for Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Guarantor to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in paragraph (C) (iv) or the relevant date of first public announcement as referred to in paragraphs (C)(vi), (vii) or (viii), as the case may be, plus in the case of each of (I) and (II) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (III) the consideration receivable or price per Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (I) or (II) above (as the case may be) divided by the number of Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above) or the relevant date of the first public announcement (in the case of (b) above);
- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Guarantor or another entity.

(xiv) *Minor Adjustments*

On any adjustment, the resultant Conversion Price, if not an integral multiple of U.S.\$0.01, will be rounded down to the nearest integral multiple of U.S.\$0.01 and no adjustment of the Conversion Price shall be required unless such adjustment would

require an increase or decrease in such price of at least one per cent.; provided that any adjustment which by reason of this Condition 7(C)(xiv) is not required to be made shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for this Condition 7(C)(xiv)) in any subsequent adjustment.

(xv) *More than one Adjustment*

If an event falls within more than one of the provisions set out in Conditions 7(C)(i) to 7(C)(vii) (inclusive), the Conversion Price shall be adjusted in accordance with the provisions that result in the smallest adjustment to the Conversion Price..

(xvi) *Reference to “fixed”*

Any references herein to the date on which a consideration is “fixed” shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xvii) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7(C) and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

(xviii) *Share Schemes*

No adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to or for the benefit of employees (including directors holding executive office) of the Guarantor or any Subsidiary pursuant to any employees’ share scheme save to the extent that any such Shares or other securities are so offered, exercised, allotted, appropriated, modified or granted (the “Relevant Employee Grant”) and thereby the number of such Shares plus the maximum number of Shares which may fall to be issued pursuant to the terms of such other Securities (together, “Relevant Employee Shares”) when aggregated with all other Relevant Employee Shares arising during the one-year period ending on the date of the Relevant Employee Grant exceeds 10 per cent, of the Shares outstanding as at the date immediately prior to the date of such Relevant Employee Grant.

(xix) *Decision of an Independent Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price or as to any modification referred to in Condition 7(B)(iii) then, following consultation between the Guarantor and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

(xx) *Notice of Adjustment to the Conversion Price*

Notice of any adjustments to the Conversion Price shall be given by the Issuer or the Guarantor to Bondholders in accordance with Condition 18 and to the Trustee promptly after the determination thereof.

(xxi) *Purchase or Redemption of Shares or GDRs*

The Guarantor, or any Subsidiary of the Guarantor, may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back shares in the Guarantor (including Shares) or GDRs or any other depositary or other receipts or certificates representing the same without the consent of the Bondholders or any other person.

(4) ***Mergers, etc.***

In the case of any consolidation, amalgamation or merger of the Guarantor with any other corporation (other than a consolidation, amalgamation or merger in which the Guarantor is the continuing corporation), or any analogous procedure under the laws of the Russian Federation, or in the case of any sale or transfer of all or substantially all of the assets of the Guarantor, the Issuer or the Guarantor will forthwith notify the Bondholders of such event and (so far as legally possible) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute a trust deed supplemental to the Trust Deed and an agreement supplemental to or amending or replacing the Deposit Agreement to ensure that the holder of each Bond then outstanding will have the right (during the period in which such Bond shall be convertible) to convert such Bond into the class and amount of shares, depositary receipts and/or other securities, property and cash receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares represented by GDRs which would have become liable to be delivered upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer. Such supplemental trust deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions of this Condition. The above provisions of this Condition 7(D) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

(5) ***Relevant Event, De-listing Event, and Free Float Event***

- (i) Within five London business days following the occurrence of a Relevant Event, the Issuer and/or the Guarantor shall give notice thereof (a “Relevant Event Notice”) to the Trustee and to the Bondholders in accordance with Condition 18. Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions.

The Relevant Event Notice shall also specify:

- (a) all information material to Bondholders concerning the Relevant Event;
- (b) the Conversion Price immediately prior to the occurrence of the Relevant Event and the Conversion Price applicable pursuant to Condition 7(C)(x) during the Relevant Event Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Relevant Event;
- (c) the closing price of the GDRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;
- (d) the last day of the Relevant Event Period; and
- (e) such other information relating to the Relevant Event as the Trustee may require.

- (ii) Upon the occurrence of a De-listing Event, the Issuer and/or the Guarantor shall give notice (a “De-listing Event Notice”) thereof to the Trustee and to the Bondholders in accordance with Condition 18. Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights of redemption under Condition 9(D).

- (ii) The De-listing Event Notice shall also specify:

- (a) all information material to Bondholders concerning the De-listing Event;
- (b) the Conversion Price immediately prior to the occurrence of the De-listing Event;
- (c) the closing price of the GDRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the occurrence of the De-listing Event;
- (d) the last day of the De-listing Event Period; and



- (e) such other information relating to the De-listing Event as the Trustee may require.
- (iii) Upon the occurrence of a Free Float Event, the Issuer and/or the Guarantor shall give notice (a “Free Float Event Notice”) thereof to the Trustee and to the Bondholders in accordance with Condition 18. Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights of redemption under Condition 9(D).

The Free Float Event Notice shall also specify:

- (a) all information material to Bondholders concerning the Free Float Event;
- (b) the Conversion Price immediately prior to the occurrence of the Free Float Event;
- (c) the closing price of the GDRs as derived from the Relevant Stock Exchange as at the latest practicable date prior to the occurrence of the Free Float Event;
- (d) the last day of the Free Float Event Period; and
- (e) such other information relating to the Free Float Event as the Trustee may require.
- (iv) The Trustee shall not be required to take any steps to ascertain whether a Relevant Event, a De-listing Event or a Free Float Event or any event which could lead to a Relevant Event, De-listing Event or Free Float Event has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

(6) ***Conversion following a Change of Control***

- (i) If a Change of Control occurs pursuant to or as a result of an Eligible Offer or an Eligible Scheme of Arrangement then, with effect from the Change of Control Date, the following provisions shall apply:
  - (a) where Conversion Rights are exercised and the relevant Conversion Date falls on or after the Change of Control Date, the relevant Bondholders shall be entitled to receive a number of Eligible Equity Shares determined by dividing the principal amount of the relevant Bonds by the adjusted Conversion Price (and otherwise mutatis mutandis as provided in these Conditions) and where the adjusted Conversion Price shall be determined as follows:

$$ACP = \frac{CP}{B} \times \frac{1}{OP}$$

where

- ACP is the adjusted Conversion Price;
- CP is the Conversion Price in effect immediately prior to the Change of Control Date;
- OP is the number of Relevant Eligible Equity Shares in respect of the Eligible Offer or Eligible Scheme of Arrangement, as the case may be;
- B is the number of Shares represented by a GDR at the relevant time,

provided that where the adjusted Conversion Price is not an integral multiple of U.S.\$0.01, it will be rounded down to the nearest integral multiple of U.S.\$0.01 and the amount by which the adjusted Conversion Price is rounded down shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for this proviso) in any subsequent adjustment to the Conversion Price;

- (b) Conversion Rights may not be exercised in circumstances where the Conversion Date falls in the period of 10 dealing days commencing on and including the Change of Control Date (or, if that is not a dealing day, the next following day that is a dealing day);
- (c) references to “GDRs” and “Shares” in these Conditions shall be construed as references to the relevant Eligible Equity Shares;
- (d) references to “the Guarantor” shall be construed as references to the Relevant Person;
- (e) references to the Conversion Price shall be construed as references to the adjusted Conversion Price as determined as provided in sub-paragraph (a), as may subsequently be adjusted from time to time as provided in these Conditions;
- (f) within five London business days following the Change of Control Date the Issuer and/or the Guarantor shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 18 and such notice shall specify:
  - (i) all information material to Bondholders concerning the Change of Control;
  - (ii) the Eligible Equity Shares;
  - (iii) the adjusted Conversion Price determined in accordance with sub-paragraph (a) above;
  - (iv) the Change of Control Date; and
  - (v) such other information relating to the Change of Control as the Trustee may require.
- (ii) Such other changes shall be made to the Trust Deed and these Conditions as an Independent Financial Adviser shall consider appropriate including, but not limited to reflect the fact, if such is the case, that the Eligible Equity Shares may be represented by depositary or other receipts or certificates such that the Bonds shall, following a Change of Control pursuant to an Eligible Offer or an Eligible Scheme of Arrangement, become convertible into such depositary or other receipts.
- (iii) Definitions

“Cash Consideration” means the cash amount comprised in the consideration per Share pursuant to the relevant Other Eligible Offer or Other Eligible Scheme of Arrangement, as the case may be.

A “Change of Control” shall occur, if any person acquires, or persons acting together acquire (other than a Permitted Holder), Control of the Guarantor (other than as a result of an Exempt Newco Scheme).

“Change of Control Date” means the date the relevant Change of Control occurs (or, if the relevant Change of Control also constitutes a Relevant Event, the day following the end of the Relevant Event Period).

“Eligible Equity Share Value” means an amount calculated in accordance with the following formula:

$$EESV = \sum_{n=1}^N \frac{1}{N} \times S \times P_n$$

where:

EESV = the Eligible Equity Share Value;

S = the number of Eligible Equity Shares receivable in respect of one Share pursuant to the Other Eligible Offer or Other Eligible Scheme of Arrangement, as the case may be;

$P_n$  = the Volume Weighted Average Price of an Eligible Equity Share on the nth dealing day of the Valuation Period, translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on such dealing day; and

$N$  = 20, being the number of dealing days in the Valuation Period, provided that if on any dealing day in the Valuation Period the Volume Weighted Average Price of an Eligible Equity Share as provided above is based on a price ex-Dividend or ex- any other entitlement and on any other dealing day in the Valuation Period such Volume Weighted Average Price is based on a price cum- such Dividend or other entitlement, then such Volume Weighted Average Price on such dealing day shall be decreased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Share as at the date of the first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the next following dealing day).

“Eligible Equity Shares” means equity share capital of the Relevant Person or depositary or other receipts or certificates representing such equity share capital provided that (i) the Relevant Person is an open joint stock company or a limited liability company (or equivalent) incorporated in or established under the laws of a European Union member state, a state within the European Economic Area or an OECD member state or the Russian Federation; and (ii) such equity share capital or depositary or other receipts or certificates representing such equity share capital is listed and admitted to trading on an EEA Regulated Market.

“Eligible Equity Offer” means an Offer where the consideration per Share is, or, where there is alternative consideration, includes consideration which is, solely Eligible Equity Shares.

“Eligible Equity Scheme of Arrangement” means a Scheme of Arrangement proposed by or on behalf of any person with regard to the acquisition of all or a majority of the issued Shares, where the scheme consideration payable to Shareholders is, or, where there is alternative consideration, includes consideration which is, solely Eligible Equity Shares.

“Eligible Offer” means an Eligible Equity Offer or an Other Eligible Offer, provided in any such case that immediately following the Change of Control becoming effective, the Permitted Holders own, directly or indirectly, more than 20 per cent. of the Voting Rights of the Relevant Person.

“Eligible Scheme of Arrangement” means an Eligible Equity Scheme of Arrangement or an Other Eligible Scheme of Arrangement, provided that immediately following the Scheme of Arrangement becoming effective, the Permitted Holders own, directly or indirectly, more than 20 per cent of the Voting Rights of the Relevant Person.

The “Liquidity Condition” shall be satisfied in relation to an Other Eligible Offer or an Other Eligible Scheme of Arrangement if the sum of (i) the Share Proportion multiplied by the GDR ADTV and (ii) the Eligible Equity Share ADTV is equal to or greater than the GDR ADTV, and where:

“Eligible Equity Share ADTV” means, in respect of any Eligible Equity Shares, an amount in US dollars calculated in accordance with the following formula:

$$\text{Eligible Equity Share ADTV} = \sum_{n=1}^N \frac{1}{N} \times S_n \times P_n$$

where:

$S_n$  the trading volume of the relevant Eligible Equity Shares on the nth dealing day in the Valuation Period, determined by reference to the most liquid trading market, where the Eligible Equity Shares are traded on more than one stock exchange or securities market or where the

Eligible Equity Shares are represented by depositary or other receipts or certificates which are traded on a stock exchange or securities market, and in that case taking into account the number of Eligible Equity Shares represented by such depositary or other receipts or certificates, all as determined by an Independent Financial Adviser;

$P_n$  the Volume Weighted Average Price of the relevant Eligible Equity Shares (as derived from the relevant stock exchange or securities market referred to under  $S_n$  above, and, where applicable, taking into account the number of Eligible Equity Shares represented by depositary or other receipts or certificates), as determined by an Independent Financial Adviser on the  $n$ th dealing day of the Valuation Period, translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on such dealing day; and

$N$  20, being the number of dealing days in the Valuation Period,

provided that if on any dealing day in the Valuation Period the Volume Weighted Average Price of an Eligible Equity Share determined as provided above is based on a price ex-Dividend or ex- any other entitlement in respect of the relevant Eligible Equity Shares and on any other dealing day in the Valuation Period such Volume Weighted Average Price is based on a price cum- such Dividend or other entitlement, then such Volume Weighted Average Price on such dealing day shall be decreased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per relevant Eligible Equity Shares as at the date of the first public announcement of such Dividend or entitlement (or, if that is not the dealing day, the next following dealing day).

“GDR ADTV” means an amount in U.S. dollars calculated in accordance with the following formula:

$$\text{GDR ADTV} = \sum_{n=1}^N \frac{1}{N} \times S_n \times P_n$$

where:

$S_n$  the trading volume of the GDRs, as derived from Bloomberg page SVST L1 <Equity> <HP>, on the  $n$ th dealing day in the Valuation Period;

$P_n$  the Volume Weighted Average Price of a GDR on the  $n$ th dealing day of the Valuation Period, translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on such dealing day; and

$N$  20, being the number of dealing days in the Valuation Period,

provided that if on any dealing day in the Valuation Period the Volume Weighted Average Price of a GDR determined as provided above is based on a price ex-Dividend or ex- any other entitlement in respect of the Shares and on any other dealing day in the Valuation Period such Volume Weighted Average Price is based on a price per GDR cum- such Dividend or other entitlement, then such Volume Weighted Average Price on such dealing day shall be decreased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per GDR as at the date of the first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the next following dealing day).

“Share Proportion” is the Eligible Equity Share Value (on the basis, where relevant, of an election being deemed to be made to receive alternative consideration comprising the greatest number of Eligible Equity Shares) divided by the Total Consideration in respect of one Share pursuant to the relevant Eligible Equity Offer or Eligible Scheme of Arrangement.

“Total Consideration” means, in respect of an Other Eligible Offer or Other Eligible Scheme of Arrangement the aggregate of (i) the Cash Consideration (translated, if not in U.S. dollars, into U.S. dollars at the average of the Prevailing Rate on each day in the Valuation Period) and (ii) Eligible Equity Share Value (on the basis, where relevant, of an election being deemed to be made to receive alternative consideration comprising the greatest number of Eligible Equity Shares).

“Nominal Eligible Equity Shares” means the Cash Consideration (translated, if not in U.S. dollars, into U.S. dollars at the average of the Prevailing Rate on each dealing day in the period of 10 dealing days referred to below) divided by the average (rounded if necessary to the decimal places, with 0.000005 being rounded up) of the Volume Weighted Average Price of an Eligible Equity Share on each dealing day (translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on such dealing day) in the period of 10 dealing days commencing on and including the Change of Control Date (or, if that is not a dealing day, the next, following day that is a dealing day) provided that if on any dealing day in such period the Volume Weighted Average Price of an Eligible Equity Share as provided above is based on a price ex-Dividend or ex- any other entitlement and on any other dealing day in such period such Volume Weighted Average Price is based on a price cum- such Dividend or other entitlement, then such Volume Weighted Average Price on such dealing day shall be decreased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Share as at the date of the first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the next following dealing day).

“Offer” means an offer (howsoever expressed or described) to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such shareholders other than the offeror and/or any associate (as defined in Section 988(1) of the UK Companies Act 2006) of the offeror) to acquire all or a majority of the issued Shares.

“Other Eligible Offer” means an Offer (other than an Eligible Equity Offer) where the consideration per Share is, or, where there is alternative consideration (other than alternative consideration that is solely Eligible Equity Shares) includes consideration which is solely cash or which is Eligible Equity Shares and cash, provided in any such case that (i) where there is alternative consideration that comprises Eligible Equity Shares and cash, the consideration per Share shall be deemed to be that consideration comprising the greatest number of Eligible Equity Shares; (ii) where none of the consideration comprises Eligible Equity Shares, the share capital of the Relevant Person comprises Eligible Equity Shares; and (iii) the Liquidity Condition shall be satisfied.

“Other Eligible Scheme of Arrangement” means a Scheme of Arrangement (other than an Eligible Equity Scheme of Arrangement) proposed by or on behalf of any person with regard to the acquisition of all or a majority of the issued Shares, where the scheme consideration payable to Shareholders is, or where there is alternative consideration (other than alternative consideration that is solely Eligible Equity Shares) includes consideration which is solely cash or which is Eligible Equity Shares and cash, provided in any such case that (i) where there is alternative consideration that comprises Eligible Equity Shares and cash, the consideration per Share shall be deemed to be that consideration comprising the greatest number of Eligible Equity Shares; (ii) where none of the consideration comprises Eligible Equity Shares, the share capital of the Relevant Person comprises Eligible Equity Shares and (iii) the Liquidity Condition shall be satisfied.

“Relevant Eligible Equity Shares” means:

- (i) in the case of an Eligible Equity Offer or an Eligible Equity Scheme of Arrangement, the number of Eligible Equity Shares receivable in respect of one Share pursuant to the Eligible Equity Offer or Eligible Equity Scheme

of Arrangement, as the case may be (for this purpose treating the consideration per Share as comprising solely Eligible Equity Shares); and

- (ii) in the case of an Other Eligible Offer or Other Eligible Scheme of Arrangement, the aggregate of (A) the number of Eligible Equity Shares (if any) receivable in respect of one Share pursuant to the Other Eligible Offer or Other Eligible Scheme of Arrangement, as the case may be and (B) the number of Nominal Eligible Equity Shares.

“Relevant Person(s)” means the person(s) acquiring Control of the Guarantor.

“Valuation Period” means the period of 20 dealing days ending on and including the Change of Control Date (or if that is not a dealing day, the immediately preceding dealing day).

## **8. PAYMENTS**

### **(1) *Accreted Principal Amount***

Save as otherwise provided in these Conditions, payments of the Accreted Principal Amount and any accrued interest upon redemption in respect of Bonds will be made by transfer to the registered U.S. dollar account of the Bondholder. Payments of the Accreted Principal Amount and such accrued interest will be made to those persons shown in the Register at the close of business on the fifteenth day before the due date for the relevant payment (the “Record Date”) and will be subject to surrender of the relevant Certificate at the specified office of any of the Agents.

*For so long as the Bonds are represented by a Global Certificate each payment made in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January.*

### **(2) *Interest***

Interest on Bonds payable on an Interest Payment Date will be paid to the persons shown on the Register at the close of business on the Record Date. Payments of such interest on each Bond will be made by transfer to the registered U.S. dollar account of the Bondholder.

### **(3) *Registered accounts***

For the purposes of this Condition 8, a Bondholder’s registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the open of business on the Record Date.

### **(4) *Fiscal laws***

All payments are subject in all cases to any applicable fiscal or other laws or regulations, but without prejudice to the provisions of Condition 10. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

### **(5) *Payment initiation***

Payment instructions (for value the due date or, if that is not a payment business day (as defined below), for value the first following day which is a payment business day) will be initiated on the payment business day preceding the due date for payment or, in the case of a payment of the Accreted Principal Amount and interest due other than on an Interest Payment Date, if later, on the payment business day on which the relevant Certificate is surrendered at the specified office of an Agent.

### **(6) *Delay in payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a payment business day, if the Bondholder is late in surrendering its Certificate (if required to do so).

(7) ***Payment business day***

In this Condition 8, “payment business day” means a day on which commercial banks are open for business in New York City and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

(8) ***Annotation of register***

If the amount of Accreted Principal Amount or interest, if any, which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of the Accreted Principal Amount or interest, if any, in fact paid.

**9. REDEMPTION, PURCHASE AND CANCELLATION**

(1) ***Redemption at maturity***

Unless previously redeemed or converted or purchased and cancelled as herein provided, the Issuer will redeem the Bonds at their Accreted Principal Amount on the Final Maturity Date and may not redeem them in whole or in part prior to that date except as provided in paragraphs (B) or (C) below (but without prejudice to Condition 11).

(2) ***Redemption at the option of the Issuer***

On having given not less than 30 nor more than 60 days’ notice (an “Optional Redemption Notice”) to the Bondholders in accordance with Condition 18 and to the Trustee (which notice will be irrevocable) the Issuer may:

- (i) at any time on or after 15 October 2015 (the “First Call Date”) and prior to the Final Maturity Date, redeem all, but not some only, of the Bonds at their Accreted Principal Amount as at such date, together with accrued interest to the date fixed for redemption provided, however, that no such redemption may be made unless on each of not less than 20 dealing days in any period of 30 consecutive dealing days ending not earlier than seven days prior to the date on which the relevant notice of redemption is given by the Issuer to the Bondholders the Aggregate Value of the GDRs to which a Bondholder would be entitled upon exercise of the Conversion Right attaching to a Bond in the principal amount of U.S.\$200,000 on such dealing day shall have exceeded 140 per cent. of the Accreted Principal Amount in respect of such Bond on each such dealing day; or
- (ii) at any time redeem all but not some only of the Bonds for the time being outstanding at their Accreted Principal Amount as at such date, together with accrued interest to the date fixed for redemption if, prior to the date of such notice, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) have been effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued, together with interest accrued to the date fixed for redemption.

Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds on the date (the “Optional Redemption Date”) specified in the relevant Optional Redemption Notice in accordance with this Condition 9(B).

For the purposes of this Condition 9(B), “Aggregate Value” means in respect of any dealing day, the U.S. dollar amount calculated as follows:

$$\text{Aggregate Value} = \text{GDR} \times \text{VWAP}$$

Where:

GDR = the number of GDRs that would fall to be issued or delivered on the exercise of Conversion Rights in respect of a Bond in the principal amount of

U.S.\$100,000 assuming the Conversion Date to be such dealing day

VWAP = the Volume Weighted Average Price of an GDR on such dealing day (provided that if on any such dealing day the GDRs shall have been quoted cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of an GDR on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per GDR as at the date of first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day).

(3) ***Redemption for taxation reasons***

Subject as provided below, the Bonds may be redeemed at the option of the Issuer, subject to the next following paragraph, in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "Tax Redemption Notice") to the Bondholders (which notice shall be irrevocable) at their Accreted Principal Amount as at such date, together with interest accrued to the date fixed for redemption (the "Tax Redemption Date") if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become (or, if the Guarantee is called, the Guarantor has or will become) obliged to pay additional amounts as provided or referred to in Condition 10 as a result of any change in, or amendment to, the laws or regulations of the Republic of Cyprus and/or the Russian Federation, as the case may be, or any political or governmental subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 19 September 2012 and (ii) such obligation cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 60 days prior to the earliest date on which the Issuer and/or the Guarantor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any Tax Redemption Notice pursuant to this paragraph, the Issuer shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer and/or the Guarantor, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. All Bonds in respect of which any Tax Redemption Notice is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

If the Issuer gives a Tax Redemption Notice pursuant to this Condition 9(C), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 10 shall not apply in respect of any payment of interest to be made on such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 10 in respect of payments of interest falling due on Interest Payment Dates falling after the Tax Redemption Date and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the Republic of Cyprus or the Russian Federation (as the case may be) or any political subdivision or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(4) ***Redemption at the option of Bondholders***

(i) *Upon a De-listing Event or Free Float Event*



The Issuer will, at the option of the holder of any Bond, redeem such Bond following the occurrence of a De-listing Event or Free Float Event on the relevant Put Date (as defined below) at its Accreted Principal Amount as at such date, together with interest accrued to but excluding the Put Date. To exercise such option, the holder must deliver the relevant Certificate to the specified office of any Agent, together with a duly completed put notice (a "Put Exercise Notice") in the form obtainable from any of the Agents, not later than the last day of the De-listing Event Period or the Free Float Event Period, as the case may be. The "Put Date" shall be the fourteenth day after the last day of the De-listing Event Period or the Free Float Event Period, as appropriate, or in any case, if that is not a New York business day, the next following New York business day.

(ii) *Redemption on 24 September 2015*

The holder of each Bond will have the right to require the Issuer to redeem that Bond on 24 September 2015 (the "Optional Put Date") at its Accreted Principal Amount as at such date, together with accrued interest to but excluding the Optional Put Date. To exercise such right, the holder of the relevant Bond must deliver the relevant Certificate to the specified office of any Agent, together with a duly completed and signed Put Exercise Notice not earlier than 90 days nor less than 45 days prior to the Optional Put Date.

(iii) *Payment*

Payment in respect of any such Bond shall be made by transfer to a U.S. dollar account as specified in the relevant Put Exercise Notice.

(iv) *Notice Irrevocable*

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of the relevant Put Exercise Notices delivered as aforesaid on the Put Date or the Optional Put Date, as the case may be.

(5) *Purchases*

The Issuer, the Guarantor or any Subsidiary of the Guarantor may, subject to compliance with applicable law at any time and from time to time purchase Bonds at any price in the open market or otherwise. Such Bonds may be surrendered to any Agent for cancellation, or may be held or reissued or resold.

(6) *Cancellation*

All Bonds which are redeemed or converted or which are purchased and surrendered to any Agent for cancellation as provided in Condition 9(E) will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Agent and such Bonds may not be reissued or resold.

(7) *Optional Redemption Notice and Tax Redemption Notice*

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or Tax Redemption Date, as the case may be, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the GDRs as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or Tax Redemption Notice, as the case may be, (iii) the last day on which Conversion Rights may be exercised by Bondholders and (iv) the Accreted Principal Amount in respect of a Bond in the principal amount of U.S.\$200,000 as at the Optional Redemption Date or Tax Redemption Date, as the case may be.

(8) *Accreted Principal Amounts*

In these Conditions, the “Accreted Principal Amount” in respect of each U.S.\$200,000 principal amount of Bonds shall mean (i) in the case of a redemption of Bonds on the Final Maturity Date, U.S.\$210,462, or (ii) in the case of a redemption of the Bonds pursuant to Condition 9(B), (C) or (D) or if the Bonds become due and payable pursuant to Condition 11, the amount which is determined to be the amount which, together with unpaid accrued interest from the immediately preceding Interest Payment Date or, if none, the Closing Date, and after taking into account any interest paid in respect of such Bonds in preceding periods, represents for the Bondholder on the relevant date for determination of the Accreted Principal Amount (the “Determination Date”) a gross yield to maturity of 2.00 per cent. per annum (calculated on a semi annual basis) and shall be calculated in accordance with the following formula, rounded (if necessary) to two decimal places, with 0.005 being rounded upwards (provided that if the relevant Determination Date is an Interest Payment Date, the Accreted Principal Amount shall be as set out below in respect of such Interest Payment Date):

$$\text{Accreted Principal Amount} = (\text{Previous Accreted Principal Amount} \times (1 + r/2)^{d_p}) - \text{AI},$$

where

Previous Accreted Principal Amount = The Accreted Principal Amount on the Interest Payment Date immediately preceding the relevant Determination Date (or, if the Bonds are to be redeemed or become due and payable prior to the first Interest Payment Date, U.S.\$200,000):

<b>Interest Payment Date</b>	<b>Accreted Principal Amount (U.S.\$)</b>
24 March 2013	U.S.\$201,000
24 September 2013	U.S.\$202,010
24 March 2014	U.S.\$203,030
24 September 2014	U.S.\$204,060
24 March 2015	U.S.\$205,102
24 September 2015	U.S.\$206,152
24 March 2016	U.S.\$207,214
24 September 2016	U.S.\$208,286
24 March 2017	U.S.\$209,368

and where:

r means 2.00 per cent. expressed as a fraction.

d means the number of days from and including the immediately preceding Interest Payment Date (or, if the Determination Date is on or before the first Interest Payment Date, from and including the Closing Date) to, but excluding the Determination Date, calculated on the basis of a 360 day year consisting of 12 months of 30 days each

and, in the case of an incomplete month, the number of days elapsed.

p means 180.

AI means the accrued interest on a Bond in the principal amount of U.S.\$200,000 from and including the immediately preceding Interest Payment Date or if the Bonds are to be redeemed before the first Interest Payment Date, from and including the Closing Date (to, but excluding the Determination Date, calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

If the Accreted Principal Amount payable in respect of any Bond upon its redemption pursuant to Condition 9(B), (C), or (D) or upon it becoming due and payable as provided in Condition 11 is not paid when due, the Accreted Principal Amount due and payable in respect of such Bond shall be the Accreted Principal Amount of such Bond as described above, as though references to the Determination Date had been replaced by references to the Relevant Date, and interest shall accrue at the rate provided for in Condition 6 on the principal amount of such Bond to the Relevant Date. The calculation of the Accreted Principal Amount in accordance with this Condition will continue to be made (as well after as before judgement) until the Relevant Date, unless the Relevant Date falls on or after the Final Maturity Date, in which case the amount due and payable shall be U.S.\$210,462 in respect of each U.S.\$200,000 principal amount of Bonds together with interest thereon (inclusive of interest payable pursuant to Condition 6) at the rate of 2.00 per cent. per annum from and including the Final Maturity Date to but excluding the Relevant Date.

## **10. TAXATION**

All payments in respect of the Bonds or under the Guarantee will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the Republic of Cyprus or the Russian Federation or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In that event the Issuer or the Guarantor (as the case may be) will, subject to Condition 9(C), increase the relevant payment to such amount as will result in the receipt by the Bondholders of the amounts which would have been received by them had no such deduction or withholding been required, except that no such increased amount shall be payable in respect of any Bond:

- (1) (in the case of payments made by the Guarantor) to or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the Republic of Cyprus or the Russian Federation, as the case may be, otherwise than merely by holding the Bond or by the receipt of the relevant payment; or
- (2) (where the Certificate in respect of such Bond is required by these Conditions to be surrendered as a pre-condition to payment) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such increased amount on surrendering the relevant Certificate for payment on the last day of such 30 day period; or
- (3) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (4) (where the Certificate in respect of such Bond is required by these Conditions to be surrendered as a pre-condition to payment) to or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by surrendering the relevant Certificate to another Agent in a Member State of the European Union.

As used in these Conditions, the “Relevant Date” in relation to any Bond means (i) the due date for payment in respect thereof or (ii) (if the full amount of the moneys payable on such due date has not been received in New York City by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such moneys have been so received.

References in these Conditions to any amount payable in respect of any Bond or under the Guarantee shall be deemed also to refer to any increased amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **11. EVENTS OF DEFAULT**

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter of the principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject to its rights under the Trust Deed to be indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are immediately due and repayable if any of the following events occurs and is continuing (each an “Event of Default”):

- (a) (i) payment of Accreted Principal Amount or interest or any other amounts payable in respect of any of the Bonds is not made as and when such amount becomes payable, provided such failure to pay continues for more than five Moscow business days; or (ii) there is a failure for more than five Moscow business days in the delivery of any GDRs required to be delivered upon exercise of Conversion Rights pursuant to these Conditions; or
- (b) the Issuer or the Guarantor fails to perform or observe any other covenant or agreement contained in the Trust Deed, the Deed of Guarantee or in the Bonds or the Guarantee and (except where, in the Trustee’s opinion, such default is not capable of remedy when no such notice as mentioned below shall be required) such failure continues (in the opinion of the Trustee) for the period of 30 Moscow business days next following the service by the Trustee on the Issuer or the Guarantor of notice requiring such default to be remedied; or
- (c) either (i) any Indebtedness of the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries is not paid when due (after the expiry of any applicable grace period); or (ii) any such Indebtedness becomes due and payable prior to its Stated Maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; provided that the amount of Indebtedness referred to in paragraph (i) and/or paragraph (ii) above, individually or in the aggregate, exceeds U.S.\$50,000,000 (or its equivalent in any other currency or currencies); or
- (d) any of the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries seeks or consents to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (likvidatsionnaya komissiya) or a similar officer of any of the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries, as the case may be, other than in connection with solvent reorganisations which are not otherwise expressly prohibited by these Conditions; (ii) the presentation or filing of a petition in respect of any of the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Trustee or as confirmed by an Extraordinary Resolution of the Bondholders to be vexatious or frivolous or such petition is being contested in good faith and discharged or dismissed within 30 calendar days of its presentation; (iii) the institution of the supervision (nablyudeniye), financial rehabilitation (finansovoye ozdorovlenie), external management (vneshneye upravleniye), bankruptcy management (konkursnoye proizvodstvo) over the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries, (iv) the entry by the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries into, or the agreeing by the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries to enter into, amicable settlement (mirovoye soglasheniye) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) other than in connection with solvent

reorganisations which are not otherwise expressly prohibited by these Conditions, any judicial liquidation in respect of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries; or

- (e) (i) the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations generally with its creditors with a view to rescheduling all or substantially all of its Indebtedness; (ii) the value of the total consolidated assets of the Guarantor or the Group is less than its total consolidated liabilities; (iii) and/or a moratorium is declared in respect of any Indebtedness of any of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries; or
- (f) any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or (in the opinion of the Trustee) any material part of, the property, undertaking, revenues or assets of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries which is not removed, satisfied, stayed, dismissed or otherwise discharged within 60 calendar days of being levied or taking possession, as the case may be; or
- (g) any governmental or Agency authorisation necessary for the performance of any obligation of the Issuer or the Guarantor under the Bonds or the Guarantee fails to be in full force and effect and such failure continues for more than 30 Moscow business days; or
- (h) any government, Agency or court takes any action that has a Material Adverse Effect; or
- (i) the shareholders of the Guarantor shall have approved any plan of liquidation or dissolution of the Guarantor; or
- (j) the aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries in the aggregate exceeds U.S.\$75,000,000 (or the equivalent thereof in any other currency or currencies), which in each case has not within 60 calendar days of the entry thereof been appealed, discharged, waived or the execution thereof stayed; or
- (k) at any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of its obligations under the Bonds or the Guarantee or any of such obligations are not, or cease to be, legal, valid, binding and enforceable and any such event under this paragraph (k) remains unremedied for more than 30 Moscow business days; or
- (l) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect to at least the same extent as at the Closing Date; or
- (m) the Issuer or the Guarantor repudiates the Bonds or the Guarantee or evidences an intention to repudiate the Bonds or the Guarantee; or
- (n) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraph (d), (e), (f), (i), (j), (k) and (m), subject in each case to the same thresholds and cure periods as set out in the applicable paragraphs.

Upon any such notice being given to the Issuer, the Bonds will immediately become due and repayable at their Accreted Principal Amount as at such date, together with interest accrued to such date.

## **12. UNDERTAKINGS**

Whilst any Conversion Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution of the Bondholders or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
  - (i) by the issue of fully paid Shares to Shareholders and other holders of shares in the capital of the Guarantor which by their terms entitle the holders thereof to receive Shares or other shares or Securities on a capitalisation of profits or reserves; or

- (ii) by the issue of Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a Dividend in cash; or
- (iii) by the issue of fully paid equity share capital (other than Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Guarantor which by their terms entitle the holders thereof to receive equity share capital (other than Shares); or
- (iv) by the issue of Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Guarantor or any of its Subsidiaries or any associated company or any personal service company of any such person or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or is otherwise taken into account for the purposes of determining whether an adjustment should be made to the Conversion Price; or

- (b) not modify the rights attaching to the Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Shares but so that nothing in this Condition 12(b) shall prevent:

- (i) any consolidation, reclassification or subdivision of the Shares; or
- (ii) any modification of such rights which is not, in the opinion of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or
- (iii) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 7(C)(xii) relating to the roundings and minimum adjustments or the carry forward of adjustments or, where comprising Shares, the fact that the consideration per Share (and where such consideration, if not expressed in the Relevant Currency, shall be translated into the Relevant Currency at the Prevailing Rate on such date as an Independent Financial Adviser shall consider appropriate) receivable therefore is at least 95 per cent. of the Current Market Price per Share, otherwise result, in an adjustment to the Conversion Price; or
- (iv) any issue of equity share capital or modification of rights attaching to the Shares, where prior thereto the Guarantor shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in a decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);

- (c) procure that no Securities (whether issued by the Issuer, the Guarantor or any Subsidiary of the Guarantor or procured by the Issuer or the Guarantor or any Subsidiary of the Guarantor to be issued or issued by any other person pursuant to any arrangement with the Issuer or the Guarantor or any Subsidiary of the Guarantor) issued without rights to convert into, or exchange or subscribe for, Shares (or GDRs or other depositary or other receipts or certificates representing Share) shall subsequently be granted such rights exercisable at a consideration per Share (or effective consideration per Share) which is less than 95 per cent. of the Current Market Price per Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights (and where such consideration, if not expressed in the Relevant Currency, shall be translated into the Relevant Currency at the Prevailing Rate on such dealing day) unless the same gives rise (or would, but for the provisions of Condition 7(C)(xii) relating to the roundings or carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there

be in issue Shares of differing nominal values, save where such Shares have the same economic rights;

- (d) not make any issue, grant or distribution or take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below any minimum level permitted by applicable laws or regulations or that would otherwise result in the Shares to be issued and represented by GDRs to be delivered on exercise of Conversion Rights not being able to be lawfully issued and fully paid;
- (e) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
  - (i) pursuant to the terms of issue of the relevant share capital; or
  - (ii) by means of a purchase or redemption of share capital of the Guarantor to the extent permitted by applicable law or any such reduction related to the Tender Offer; or
  - (iii) by way of transfer to reserves or share premium as permitted under applicable law; or
  - (iv) where the reduction does not involve any distribution of assets; or
  - (v) solely in relation to a change in currency in which the nominal value of the Shares is expressed; or
  - (vi) to create distributable reserves; or
  - (vii) as may be required pursuant to IFRS; or
  - (viii) where the reduction is permitted by applicable law and the Trustee is advised in writing by an Independent Financial Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or
  - (ix) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 7(C)(xii) relating to the rounding or carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made, provided that, without prejudice to the other provisions of these Conditions, the Guarantor may exercise such rights as they may from time to time enjoy pursuant to applicable law to purchase, redeem or buy back its Shares and any depositary or other receipts or certificates representing Shares without the consent of Bondholders;
- (f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates of the offeror) to acquire the whole or any part of the issued Shares or the GDRs, or if any person proposes a scheme with regard to such acquisition, give notice of such offer or scheme to the Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Agents and, where such an offer or scheme has been recommended by the board of directors of the Guarantor, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use its reasonable endeavours to procure that a like or substantially like offer or scheme is extended to the holders of any GDRs issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders and that an appropriate and fair offer is made in respect of the Bonds;
- (g) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the scheme of arrangement, at its option, either (a) Newco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Guarantor providing a guarantee) subject to and as provided in the Trust Deed; or (b) Newco becomes a guarantor under the Bonds, the Trust Deed and the Deed of Guarantee (jointly and severally with the Guarantor) and, in either case, that (i) such amendments are made to these Conditions, the Trust Deed and/or the Deed of Guarantee as are necessary to ensure that the Bonds may be converted into or exchanged for ordinary shares in Newco or depositary receipts representing such ordinary shares *mutatis mutandis* in accordance with and subject to these Conditions, the Trust Deed

and this Deed of Guarantee and (ii) the ordinary shares of Newco or such depositary receipts are admitted to listing and trading on an EEA Regulated Market;

- (h) use all reasonable endeavours to ensure that the GDRs continue to be admitted to listing on the Official List of the UK Listing Authority and to trading on the regulated market of the London Stock Exchange, or on another EEA Regulated Market as determined by the Guarantor; and
- (i) use all reasonable endeavours to maintain the GDR facility in accordance with the Deposit Agreement such that GDRs can be delivered as and when required to satisfy Conversion Rights.

Each of the Issuer and the Guarantor has undertaken to deliver to the Trustee annually and at other times at the request of the Trustee a certificate that there has not occurred an Event of Default or Potential Event of Default (as defined in the Trust Deed) since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to monitor compliance by the Issuer or the Guarantors with the undertakings set forth in this Condition 12, nor be liable to any person for not so doing.

### **13. PRESCRIPTION**

Claims against the Issuer for payment of Accreted Principal Amount and interest in respect of the Bonds will become prescribed unless made within 10 years (in the case of Accreted Principal Amount and all other amounts (other than interest)) and five years (in the case of interest) from the relevant date for payment in respect thereof.

### **14. ENFORCEMENT**

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take any steps or actions or institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Bonds and/or the Deed of Guarantee (including, without limitation, proceedings by arbitration pursuant to the Trust Deed or Deed of Guarantee or by litigation), but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

### **15. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER; SUBSTITUTION**

#### **(1) *Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Deed of Guarantee. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) if requested in writing by Bondholders holding not less than 10 per cent. in nominal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, and to vote on a resolution other than an Extraordinary Resolution will be one or more persons holding or representing not less than 10 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to change the Final Maturity Date, the First Call Date or the Optional Put Date (other than deferring the First Call Date) or to change the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount or Accreted Principal Amount of, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds (or to change the method of calculating such amount), (iii) to modify or cancel the Conversion Rights, other than pursuant to or as a result of any amendments to these Conditions, the Trust



Deed and the Deed of Guarantee made pursuant to the provision of Condition 12(g) (a “Newco Scheme Modification”), (iv) to increase the Conversion Price, other than in accordance with these Conditions or pursuant to a Newco Scheme Modification, (v) to change the currency of any payment in respect of the Bonds, (vi) to change the governing law of the Bonds, the Trust Deed, the Deed of Guarantee or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 15(C)), (vii) to modify or cancel the Guarantee or (viii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than 66 2/3 per cent., or at any adjourned meeting not less than one-half in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the holders of not less than 66 2/3 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

No consent or approval of Bondholders shall be required in connection with any Newco Scheme Modification.

(2) ***Modification***

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, the Deed of Guarantee, any deed supplemental to the Trust Deed or the Deed of Guarantee, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions which in the Trustee’s opinion is of a formal, minor or technical nature or to comply with mandatory provisions of law or is made to correct a manifest error, and (ii) any other modification to the Trust Deed, the Deed of Guarantee, any deed supplemental to the Trust Deed or the Deed of Guarantee, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Deed of Guarantee, any deed supplemental to the Trust Deed or the Deed of Guarantee, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 18.

(3) ***Substitution***

The Trustee may, without the consent of the Bondholders, agree with the Issuer and the Guarantor as provided in, and for the purposes of, Condition 12(g) to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Guarantor subject to (a) the Bonds continuing to be unconditionally and irrevocably guaranteed by the Guarantor, and (b) the Bonds continuing to be convertible or exchangeable into GDRs as provided in these Conditions mutatis mutandis as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case certain conditions set out in the Trust Deed have been complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Deed of Guarantee provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders. By subscribing to, acquiring or otherwise purchasing the Bonds, the holders of the Bonds are expressly deemed to have consented to the substitution of the Issuer by a new issuer and to the release of the Issuer from any and all obligations in respect of the Bonds and all relevant agreements and are expressly deemed to have accepted such substitution and the consequences thereof.

(4) ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

**16. REPLACEMENT OF CERTIFICATES**

If any certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and/or the Guarantor and/or the Registrar may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**17. AGENTS**

The names of the initial Agents and Registrar and their specified offices are set out below. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or Registrars provided that it will maintain (i) a Principal Agent, (ii) a Registrar and (iii) Agents having specified offices in at least one major financial centre in Europe approved by the Trustee which, so long as the Bonds are listed on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "Official List") and admitted to trading on the professional securities market of the London Stock Exchange and the rules so require, shall be London and (iv) an Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment and of any change in the specified offices of the Principal Agent, the Registrar or any Agent will be given promptly by the Issuer to Bondholders.

**18. NOTICES**

All notices regarding the Bonds will be valid if published in one leading daily newspaper in the United Kingdom (which is expected to be the Financial Times) or, if this is not possible, in one other leading English language daily newspaper with general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

*So long as the Bonds are represented by a Global Certificate which is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to holders of Bonds represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.*

**19. INDEMNIFICATION**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any advice of an Independent Financial Adviser, or any expert considered by the Trustee to be of good repute, whether

or not addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise.

## **20. FURTHER ISSUES**

The Issuer may from time to time without the consent of the Bondholders create and issue further Bonds, bonds or debentures either having the same terms and conditions in all respects as the outstanding Bonds, bonds or debentures of any series (including the Bonds) (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, redemption and otherwise as the Issuer may determine at the time of their issue. Any further Bonds, bonds or debentures forming a single series with the outstanding Bonds, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other Bonds, bonds or debentures may with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of Bonds, bonds or debentures of other series in certain circumstances where the Trustee so decides.

## **21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

## **22. ARBITRATION**

### **(1) LCIA Rules**

A dispute or difference of whatever nature howsoever arising between the Issuer or, as the case may be, the Guarantor and any Bondholder (subject to Condition 14 ) under, out of or in connection with the Bonds or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Bonds or the Trust Deed or the Guarantee and any non- contractual obligations arising out of or in connection with any of them) (each a “Dispute”) shall (regardless of the nature of the Dispute) be referred to and finally settled by arbitration in accordance with the LCIA Rules (the “Rules”) as at present in force (which Rules are deemed to be incorporated by reference into this Condition 22(A)) by a panel of three arbitrators appointed in accordance with the Rules.

### **(2) Seat of Arbitration**

The seat of arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of the arbitration shall be English. The appointing authority for the purposes set forth in the Rules shall be the LCIA Court. Any award given by the arbitrators shall be final and binding on the parties to the Dispute and shall be in lieu of any other remedy.

## **23. GOVERNING LAW AND CONSENT TO ENFORCEMENT**

### **(1) Governing law**

The Bonds (including for the avoidance of doubt Condition 22), the Trust Deed, the Deed of Guarantee, and any non-contractual obligations arising out of or in connection with any one of them are governed by, and shall be construed in accordance with, English law.

### **(2) Consent to enforcement etc.**

The Issuer and the Guarantor consent generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Disputes.

## 24. DEFINITIONS

In these Conditions, the following terms shall have the following meanings:

“Accounting Standards” means IFRS, U.S. GAAP or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being.

“Accreted Principal Amount” has the meaning provided in Condition 9.

“Agency” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

“Arm’s Length Value” means, with respect to any asset or property, the price which could be negotiated in an arm’s length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Arm’s Length Value will be determined in good faith by the chief financial officer of the Guarantor, whose determination will be conclusive.

“business day” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are generally open for business in that place.

“Capital Stock” means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter issued.

“Closing Date” means 24 September 2012.

“Control” means in respect of any person (a) the holding, ownership, acquisition or control of, or the right to acquire, hold, own or control, more than 50 per cent. of the Voting Rights of that person or (b) control over the right to appoint and/or remove all or the majority of the members of that person’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, and controlled shall be construed accordingly.

“Current Market Price” means, in respect of a Share at a particular date, the average of the daily Volume Weighted Average Price of a GDR on each of the ten consecutive dealing days (in the case of calculations relating to Dividends pursuant to Condition 7(C)(iii)) or five consecutive dealing days (in each other case) ending on the dealing day immediately preceding such date (divided by the number of Shares represented by a GDR on the relevant dealing date), provided that if at any time during the said five or ten-dealing-day period, as the case may be, the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dealing days on which the Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share as at the date of first public announcement of such Dividend (or entitlement) in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit; or
- (b) if the Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dealing days on which the Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share as at the date of first public announcement of such Dividend (or entitlement) in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit,

and provided further that if on each of the said five or ten dealing days, as the case may be, the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Share as at the date of the first public announcement of such Dividend or entitlement in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit, and provided further that, if the Volume Weighted Average Price of a Share is not available on one or more of the said five or ten dealing days, as the case may be, (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five or ten-dealing-day period, as the case may be, shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

“dealing day” means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which the GDRs, Securities, Spin-Off Securities or Eligible Equity Shares (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

“De-listing Event” means the occurrence of either of the following:

- (i) the GDRs at any time cease to be admitted to listing on the Official List of the UK Listing Authority and to trading on the EEA Regulated Market of the London Stock Exchange (or if the GDRs have been admitted to listing and trading on another EEA Regulated Market in place of (and not in addition to) the London Stock Exchange, have ceased to be admitted to listing and trading on such EEA Regulated Market), save that the movement of listing from the Official List of the UK Listing Authority and to trading on the EEA Regulated Market of the London Stock Exchange to another EEA Regulated Market in accordance with the Trust Deed and Condition 12 shall not constitute a De-listing Event; or
- (ii) trading of the GDRs on the EEA Regulated Market of the London Stock Exchange (or any such other EEA Regulated Market on which the GDRs are at the relevant time listed and admitted to trading in place of (and not in addition to) the London Stock Exchange) is suspended for a period of 10 consecutive dealing days or more or, in circumstances where such suspension is requested by the Guarantor in connection with a corporate reorganisation, a period of 60 consecutive dealing days.

“De-listing Event Period” means the period commencing on the date on which a De-listing Event occurs and ending 60 calendar days following such date or, if later, 60 calendar days following the date on which a De-listing Event Notice is given as required by Condition 7(E) or, in any such case, if that is not a dealing day, the next following dealing day.

“Disqualified Stock” means, with respect to any person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the date which is six months after the Final Maturity Date.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified

Stock is to be determined; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such person.

“Dividend” means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Shares, GDRs or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

- (a) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a cash Dividend of the greater of an amount equal to (i) such cash amount and (ii) the Current Market Price of such Shares or, as the case may be, Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or if later, the date on which the number of Shares (or Securities or amount of property or assets, as the case may be) which may be issued or transferred and delivered is determined);
- (b) any issue of Shares falling within Condition 7(C)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of Shares or GDRs by the Guarantor or any Subsidiary of the Guarantor shall not constitute a Dividend unless the weighted average price per Share or GDR (before expenses) on any one day (a “Specified Share Day”) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate) on such day exceeds by more than 5 per cent. the average of the closing prices of the Shares or the GDRs, as the case may be, on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the ten dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Shares or GDRs at some future date at a specified price, on the ten dealing days immediately preceding the date of such announcement, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Shares or GDRs, as the case may be, purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Shares or GDRs, as the case may be, determined as aforesaid and (ii) the number of Shares or GDRs, as the case may be, so purchased, redeemed or bought back (and for the purpose of this paragraph (c), the closing price of a Share on any day shall be the closing price of a GDR on such day on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange), divided by the number of Shares represented by a GDR on such day and translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate);
- (d) if the Guarantor or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Shares (other than GDRs), the provisions of paragraph (c) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined by an Independent Financial Adviser; and
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Guarantor for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Shares held by them from a person other than, (or in addition to) the Guarantor, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution

made or paid to Shareholders by the Guarantor, and the foregoing provisions of this definition and the provisions of these Conditions shall be construed accordingly,

and any such determination or calculation shall be made on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit.

“EEA Regulated Market” means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

“equity share capital” means, in relation to any entity, its issued share capital excluding any part of that capital which, does not carry any right (other than Voting Rights in accordance with applicable law) to participate beyond a specific preferential dividend right and/or a specific preferential amount in the capital of such entity on redemption or on a liquidation.

“Exempt Newco Scheme” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are admitted to trading on an EEA Regulated Market.

“Fair Market Value” means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that (i) the Fair Market Value of a cash Dividend shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per GDR, the dividend yield of a Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i), be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii), the Fair Market Value shall be determined on a gross basis and any withholding or deduction required to be made on account of tax and any associated tax credit shall be disregarded.

“Final Maturity Date” means 24 September 2017.

“First Call Date” has the meaning provided in Condition 9(B)(i).

a “Free Float Event” shall occur if for any period of at least 30 consecutive dealing days (i) the number of Shares represented by the GDRs comprising the GDR Free Float is equal to or less than the higher of (a) 6.5 per cent. of the total number of issued Shares (including Shares represented by outstanding GDRs or other depositary receipts or certificates representing Shares) and (b) two times the number of Shares represented by the GDRs underlying the outstanding Bonds from time to time by reference to the initial Conversion Price or (ii) the number of Shares comprising the Share Free Float is equal to or less than 10 per cent. of the total number of issued Shares (including Shares represented by outstanding GDRs or other depositary receipts or certificates representing Shares).

“Free Float Event Period” means the period commencing on the date on which a Free Float Event occurs and ending 60 calendar days following such date or, if later, 60 calendar days following the date

on which a Free Float Event Notice is given as required by Condition 7(E) or, in any such case, if that is not a dealing day, the next following dealing day.

“GDR Free Float” means the aggregate number of GDRs held by persons that own (together with any other person or persons with whom they act in concert) GDRs representing less than 5 per cent. of the total number of issued and outstanding Shares (including Shares represented by GDRs or other depositary receipts or certificates representing Shares), as determined by an Independent Financial Adviser acting reasonably and in good faith, in consultation with the Issuer (and, for the avoidance of doubt, (i) GDRs that have been, borrowed and that remain, borrowed pursuant to the Stock Loan Agreements at the relevant time shall be treated as not being owned by the relevant lender and (ii) GDRs that are held by the relevant lender and remain available to be borrowed pursuant to the Stock Loan Agreements at the relevant time shall be treated as forming part of the GDR Free Float (such GDRs referred to in (i) and (ii) totalling, as at the Closing Date, 18,750,000).

“Group” means the Guarantor and its Subsidiaries taken as a whole.

“guarantee” means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“IFRS” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or reissued from time to time) as consistently applied, and any variation to such accounting principles and practices which is not material.

“Indebtedness” means any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, Bonds, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Disqualified Stock; and any amount raised under any other transaction having the economic or commercial effect of a borrowing; and, without duplication of any of the foregoing, the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above. For the avoidance of doubt the following amounts shall not constitute “Indebtedness”: (i) trade accounts payable, (ii) advances received from customers, (iii) operating lease liabilities, (iv) amounts payable to employees, (v) government grants, (vi) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence and (vii) other accounts payable and advances received, to the extent that such amounts described in paragraphs (i) through (vii) arise in the ordinary course of business.

“Independent Financial Adviser” means an independent investment bank, financial institution or accounting firm of international repute appointed at its own expense by the Guarantor and approved in writing by the Trustee or, if the Guarantor fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee following notification to the Guarantor.

“Lien” means any mortgage, pledge, encumbrance, lien, charge or other security interest or other preferential agreement or agreement having a similar effect (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof, including, but without limitation to, a Sale/Leaseback Transaction).

“London Stock Exchange” means the London Stock Exchange plc.



“Material Adverse Effect” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of the Guarantor or the Group; (b) the Issuer or the Guarantor’s ability to perform or comply with its obligations under the Trust Deed, the Deed of Guarantee, the Bonds or the Guarantee or (c) the validity or enforceability of the Trust Deed, the Deed of Guarantee, the Bonds or the Guarantee or the rights or remedies of the Trustee and/or the Bondholders thereunder.

“Material Subsidiary” means, at any given time, a Subsidiary of the Guarantor which:

(a) has gross revenues (excluding intra-group revenues between entities in the Group) for the six months period from the date of the most recent published financial statements of the Guarantor representing 10 per cent. or more of the consolidated gross revenues of the Group; or

(b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with Accounting Standards to which the then most recent published audited consolidated financial statements of the Guarantor comply, as consistently applied.

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest consolidated annual or, as the case may be, interim financial statements of that Subsidiary prepared in accordance with the accounting policies of the Group and the latest consolidated annual or, as the case may be, interim financial statements of the Group.

The Trustee shall be entitled to rely on a certificate of two directors of the Guarantor (if such certificate is requested by the Trustee), as to whether or not a Subsidiary is, or is not, a Material Subsidiary.

“MICEX” means CJSC Stock Exchange Moscow Interbank Currency Exchange.

“Newco Scheme” means a Scheme of Arrangement which effects the interposition of a corporate or analogous entity (“Newco”) between the Shareholders of the Guarantor immediately prior to the Scheme of Arrangement (the “Existing Shareholders”) and the Guarantor; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders, (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are the Existing Shareholders and (iii) all Subsidiaries of the Guarantor immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Guarantor) are Subsidiaries of the Guarantor (or of Newco) immediately after the Scheme of Arrangement.

“Non-recourse Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any project if (i) the recourse of the person or persons providing such financing is limited to the project financed (and the direct owner of such project) and the revenues derived from such project as the principal source of repayment for the moneys advanced (it being acknowledged and agreed that equity contribution agreements (and related guaranties), subordinated debt obligations and equity pledges and similar arrangements, in each case, provided by or on behalf of the indirect owners of such project shall not result in such financing being considered recourse to such indirect owners) and (ii) the person or persons providing such financing have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service substantially all Indebtedness incurred in connection with such project.

“Optional Put Date” has the meaning provided in Condition 9(D)(ii).

“Permitted Holder” means any and all of (i) Alexey Mordashov and his immediate family; (ii) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which all or any of the foregoing are the only beneficiaries; and (iii) any entity beneficially or legally owned or Controlled, directly or indirectly, by any of the foregoing persons.

“Permitted Liens” means:

(a) Liens granted by the Issuer, the Guarantor or any of the Guarantor’s Subsidiaries which are existing as at the Closing Date;

- (b) Liens arising or created in connection with any Non-recourse Project Financing;
- (c) Liens on any property, income or assets of a person existing at the time that such person is acquired, merged into or consolidated with the Issuer, the Guarantor or any of the Guarantor's Subsidiaries; provided that such Liens were not created in contemplation of such event and do not extend to any assets, income or property of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, other than the surviving person and its Subsidiaries;
- (d) Liens on assets, income or property acquired by the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries existing prior to such acquisition; provided that such Liens were not created in contemplation of such acquisition and do not extend to any other assets, income or property (other than proceeds of such acquired assets or property);
- (e) any Lien on any property or assets of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) no such Lien shall extend to any other property or assets of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries, (ii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iii) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;
- (f) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (g) Liens imposed by law, including, but without limitation to, mechanics', carriers', warehousemen's, materialmen's, suppliers' and vendors' Liens in the ordinary course of business;
- (h) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Guarantor has set aside in its books of account reserves to the extent required by Accounting Standards to which the then most recent published audited consolidated financial statements of the Guarantor comply, as consistently applied;
- (i) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries and existing, arising or incurred in the ordinary course of business;
- (j) bankers' Liens in respect of deposit accounts, (ii) statutory landlords' Liens, (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, (X) with respect to items described in (ii) and (iii) above of this paragraph (j), such Liens do not secure obligations constituting Indebtedness for borrowed money and (Y) with respect to items described in (i), (ii) and (iii) above of this paragraph (j), such Liens are incurred in the ordinary course of business), and (iv) Liens arising from any judgment, decree or other order which does not constitute an Event of Default;
- (k) any Lien on the property, income or assets of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries securing Indebtedness of the Issuer, the Guarantor or any such Subsidiary incurred in an aggregate principal amount outstanding at any one time not to exceed 20 per cent. of the total consolidated assets of the Group (determined by reference to the most recent publicly available consolidated annual or interim financial statements of the Guarantor prepared in accordance with those Accounting Standards to which the then most recent published audited consolidated financial statements of the Guarantor comply as may be adopted from time to time by the Guarantor). For the avoidance of doubt, this paragraph (k) does not include any Lien created in accordance with paragraphs (a) to (j) or (l) to (r) hereof;

- (l) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which are created pursuant to any repo transaction;
- (m) Liens granted by the Issuer or a Subsidiary of the Guarantor in favour of the Guarantor or another Subsidiary of the Guarantor or by the Guarantor in favour of the Issuer or a Subsidiary of the Guarantor with respect to the property or assets, or any income or profits therefrom, of the Issuer, the Guarantor or such Subsidiary of the Guarantor, as the case may be;
- (n) any Lien granted in connection with pre-export financing, being Liens over any rights, title or interest in, to or under any Product Delivery Contract, including the receivables generated under any such Product Delivery Contract and all other monies and proceeds arising in connection with any such Product Delivery Contract, and any Lien over any bank accounts into which the receivables, monies and proceeds from any such Product Delivery Contract are paid or transferred or into which moneys are placed as cash collateral as required by the terms of such pre-export financing (including (i) amounts standing to the credit of such bank accounts and (ii) any rights under any agreements establishing or opening such bank accounts);
- (o) any Lien in respect of obligations arising under hedging agreements so long as any such hedging agreement is not speculative;
- (p) a right of set-off, right to combine accounts, netting or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;
- (q) any Lien created in connection with the raising of any Indebtedness for working capital purposes; and
- (r) any extension, renewal, replacement of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (q); provided, however, that, (i) such extension, renewal, replacement or substitution shall be no more restrictive in any material respect than the original Lien, (ii) the principal amount of Indebtedness secured by such Lien is not increased and (iii) if the property, income or assets subject to such Lien are changed in connection with such extension, renewal, replacement of or substitution, the Arm's Length Value of the property, income or assets subject to such Lien is not increased.

“person” means any individual, company, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity.

“Prevailing Rate” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined or if such rate cannot be so determined by reference to the Relevant Page, the rate determined in such other manner as an Independent Financial Adviser shall consider appropriate.

“Product Delivery Contract” means any contract for the sale or delivery of any steel or steel products and ferrous metals (including iron ore and iron ore pellets), coke, coal, coke concentrate, nickel, ferro-alloys and gold (including contracts for sale, transportation or exchange and utilisation and pooling declarations or agreements), entered into from time to time between the Issuer, the Guarantor or any of the Guarantor's Subsidiaries and any other persons.

“Relevant Currency” means U.S. dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, the regulated market of the London Stock Exchange is not the Relevant Stock Exchange in respect of the GDRs, the currency in which the GDRs, as the case may be, are quoted or dealt in on the Relevant Stock Exchange at such time (or, in the case of Eligible Equity Securities, the currency in which the Eligible Equity Shares are quoted or dealt in on the Relevant Stock Exchange relating to such Eligible Equity Securities at such time).

“Relevant Date” has the meaning provided in Condition 10.

a “Relevant Event” shall occur if:

- (i) the Permitted Holders together at any time hold, own or control, directly or indirectly, less than 20 per cent. of the Voting Rights of the Guarantor, other than where a Change of Control shall occur pursuant to an Eligible Offer or an Eligible Scheme of Arrangement; or
- (ii) a Change of Control shall occur and immediately thereafter any person or persons acting together holds, owns or controls, directly or indirectly, more of the Voting Rights of the Relevant Person(s) than the Permitted Holders; or
- (iii) a Change of Control shall occur pursuant to or as a result of an Offer or Scheme of Arrangement, other than an Eligible Offer or an Eligible Scheme of Arrangement.

“Relevant Event Period” means the period commencing on the date on which a Relevant Event occurs and ending 60 calendar days following such date or, if later, 60 calendar days following the date on which a Relevant Event Notice is given as required by Condition 7(E) or, in any such case, if that is not a dealing day, the next following dealing day.

“Relevant Page” means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

“Relevant Stock Exchange” means (i) in relation to the GDRs, the EEA Regulated Market of the London Stock Exchange or if at the relevant time the GDRs are not at that time listed and admitted to trading on the EEA Regulated Market of the London Stock Exchange, the principal stock exchange or securities market on which the GDRs are then listed or quoted or dealt in (ii) in relation to the Shares, MICEX or if at the relevant time the Shares are not at that time listed and admitted to trading on MICEX, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in and (iii) in relation to Eligible Equity Shares, the relevant EEA Regulated Market on which such Eligible Equity Shares are listed and admitted to trading.

“Sale/Leaseback Transaction” means an arrangement relating to property now owned or hereafter acquired whereby the Guarantor or any of its Material Subsidiaries transfers such property to a person and the Guarantor or such Material Subsidiary leases it from such person.

“Scheme of Arrangement” means a scheme of arrangement or analogous procedure.

“Securities” means any securities including, without limitation, Shares, GDRs, or options, warrants or other rights to subscribe for or purchase or acquire Shares or GDRs.

“Share Free Float” means the aggregate number of Shares held by persons that own (together with any other person or persons with whom they act in concert) Shares representing less than 5 per cent, of the total number of issued and outstanding Shares, as determined by an Independent Financial Adviser acting reasonably and in good faith, in consultation with the Issuer and where (i) references to “Shares” shall include Shares represented by outstanding GDRs or other depositary receipts or certificates representing Shares; (ii) Shares held by or on behalf of the Depositary from time to time shall be treated as being held by the holder of the relevant GDRs representing such Shares, and not by the Depositary; (iii) GDRs that have been borrowed and remain borrowed pursuant to the Stock Loan Agreements at the relevant time shall be treated as not being owned by the relevant lender and (iv) GDRs that are held by the relevant lender and remain available to be borrowed, pursuant to the Stock Loan Agreements at the relevant time shall be treated as forming part of the Share Free Float (such GDRs referred to in (iii) and (iv) totalling, as at the Closing Date, 18,750,000 GDRs).

“Shareholders” means the holders of Shares or GDRs.

“Spin-Off” means:

- (a) a distribution of Spin-Off Securities by the Guarantor to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or Securities of or in or issued or allotted by any entity) by any entity (other than the Guarantor) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Guarantor or any of its Subsidiaries.

“Spin-Off Securities” means equity share capital of an entity other than the Guarantor or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Guarantor.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Stock Loan Agreement” means the stock loan agreements between Citigroup Global Markets Limited and Lybica Holding BV and between Deutsche Bank AG, acting through its London Branch and Lybica Holding BV dated 19 September 2012 (as may be amended, supplemented or novated from time to time).

“Subsidiary” of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in the case of each of (a) and (b)) in accordance with Accounting Principles, as consistently applied, such entity would be fully consolidated with the first-named person for financial statement purposes.

“UK Listing Authority” means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom.

“U.S. GAAP” means generally accepted accounting principles, standards and practices in the United States of America.

“Volume Weighted Average Price” means, in respect of a GDR, Security, a Spin-Off Security or, as the case may be, an Eligible Equity Share on any dealing day, the order book volume-weighted average price of a GDR, Security, a Spin-Off Security or, as the case may be, an Eligible Equity Share published by or derived (in the case of a GDR) from Bloomberg page VAP or (in the case of a Security (other than the GDRs) or Spin-Off Security or Eligible Equity Share) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities or Eligible Equity Shares are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a GDR, Security or a Spin-Off Security or Eligible Equity Shares, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined (subject, in any such case in relation to an Eligible Equity Share, as provided in the definition “Eligible Equity Share ADTV”).

“Voting Rights” means, with respect to any entity, the right generally to vote at a general meeting of shareholders of such entity (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

“Voting Stock” means, in relation to any person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

References to “U.S.\$” and “U.S. dollars” means the lawful currency of the United States of America and reference to “roubles” means the lawful currency of the Russian Federation.

References to any provision of any statute or the like shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers in good faith appropriate to reflect any change in the number of Shares represented by a GDR or any consolidation or sub-division of the Shares or any issue of Shares by way of capitalisation of profits or reserves, or any like or similar event.

References to the “issue” of Shares shall include the transfer and/or delivery of Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Guarantor or any of its Subsidiaries, and (b) Shares held by or on behalf of the Guarantor or any of its Subsidiaries (and which, in the case of Condition 7(C)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “in issue” or as being part of the “issued share capital” of the Guarantor.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds are represented by a Global Bond Certificate that will be registered in the name of a common nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg.

The Global Bond Certificate will become exchangeable in whole, but not in part, for Individual Bond Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11 (Events of Default) occurs.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Bond Certificate will contain provisions that modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Bond Certificate. The following is a summary of certain of those provisions:

### *Payments on business days:*

In the case of all payments made in respect of the Global Bond Certificate “**business day**” means any day which is a day on which dealings in foreign currencies may be carried on in New York City.

*Payment Record Date:* Each payment in respect of the Global Bond Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Bond Certificate is being held is open for business.

### *Exercise of put option:*

In order to exercise the option contained in Condition 9(4) (Redemption at the option of Bondholders) the Holder of the Global Bond Certificate must, within the period specified in the Conditions for the deposit of the relevant Bond Certificate and put notice, give written notice of such exercise to the Principal Paying, Transfer and Conversion Agent specifying the principal amount of Bonds in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

### *Conversion Rights:*

The conversion rights in respect of the Bonds will be exercisable by presentation of this Global Bond Certificate to or to the order of any Agent for notation of exercise of the relevant conversion rights together with one or more duly completed Conversion Notices.

### *Notices:*

Notwithstanding Condition 18 (Notices), so long as the Global Bond Certificate is held on behalf of for Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to Holders of Bonds represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

### **USE OF PROCEEDS**

The net proceeds of the issue of the Bonds, in the amount of U.S.\$466,720,245.65 after deduction of commissions and other expenses incurred in connection with the issue of the Bonds (including expenses related to the listing and admission to trading of the Bonds), will be used for the refinancing of the Company's existing indebtedness and for general corporate purposes.



## DESCRIPTION OF THE ISSUER

### Introduction

The Issuer was incorporated in Cyprus (registered number 302251) on 2 March 2012 as a limited company under the laws of the Republic Cyprus, with its registered office at Karaiskaki 6, CITY HOUSE 3032, Limassol, Cyprus, telephone number +357 25 001 500.

### Business and Overview of the Issuer

The Issuer is a wholly-owned indirect subsidiary of the Guarantor and its sole business is the issue and maintenance of the Bonds and the loan of the proceeds of the issue of the Bonds to the Guarantor. Since the date of its incorporation, other than entering into contracts in connection with the matters described above, the Issuer has not commenced business nor has it incurred any liabilities.

The Issuer has no subsidiaries.

### Share Capital of the Issuer

The share capital of the Issuer is € 10,000, divided into 2.000 Ordinary Shares of € 1.00 each and 8,000 Redeemable Preference Shares of € 1.00 each.

### Corporate Administration

CypcoDirect Limited, Michalakopoulou, 14, Demitas Tower, 3rd floor, Flat/Office 302, 1075, Nicosia, Cyprus.

### Management and Employees

The Issuer has no employees other than those directors listed below in the section entitled “—*Directors and Secretary*”.

### Directors and Secretary

The directors of the Issuer and their other principal activities as of the date hereof are as follows:

<b>Name</b>	<b>Function</b>
Georgia Kafkalia	Director; Main function is to ensure that the Company is in compliance with local laws and regulations
Evi Papageorgiou	Director; Main function is to ensure that the Company is in compliance with local laws and regulations

The company secretary of the Issuer is Cypcosecreterial Limited, Michalakopoulou, 14, Demitas Tower, 3rd floor, Flat/Office 302, 1075, Nicosia, Cyprus.

The business address of the directors is at Agias Zonis, 50, Arianthy Court 1st Floor, Flat/Office 101, 3090 Limassol, Cyprus.

There are no other conflicts of interests between any duties owed to the Issuer by its directors and their private interests and/or other duties.

### Financial Statements

On an annual basis, the Issuer will prepare and publish audited financial statements in accordance with International Financial Reporting Standards, which will be filed in accordance with Cyprus law. The Issuer only intends to prepare audited annual financial statements beginning for the year ended 31 December 2012. As of the date hereof, the Issuer has not yet prepared any financial statements.

## DESCRIPTION OF THE GUARANTOR

### Introduction

The Company's charter states in clause 4.1 that the main aim of the company is earning profits and using profits in the interest of the company.

The Company is an open joint stock company incorporated under the laws of the Russian Federation and domiciled in Cherepovets, Russia. The Company's registration number is 1023501236901 and its registered address is 30 Mira Street, Cherepovets, Vologodskaya Oblast, 162600, Russian Federation. The telephone number of the Company's Moscow office is +7 495 926 7766.

### Business of the Guarantor

This information on pages 130-183 of the Eurobond Prospectus is incorporated herein by reference. See "*Information Incorporated by Reference*".

### Management

This information on pages 184-196 of the Eurobond Prospectus is incorporated herein by reference. See "*Information Incorporated by Reference*".

### Related Party Transactions

This information on pages 198-200 of the Eurobond Prospectus is incorporated herein by reference. See "*Information Incorporated by Reference*".

### Overview of the Group

The Group is an international, vertically integrated steel and mining company that sells high quality metal and mining products to customers across the world. According to worldsteel, the Group was the world's twenty third largest producer of crude steel in 2011 by volume of production with 15.3 million tonnes of total crude steel output. The Group is a full production cycle operation which includes iron ore, coal, scrap collection, steel mills and rolled product plants, downstream production and distribution businesses. The Group's primary production facilities are geographically diversified with locations in Russia, the United States and a number of other countries. With a focus on high value added products in attractive niche markets, the Group's corporate strategy is to become one of the global industry leaders in terms of EBITDA and to sustain a leading position in terms of both profitability margins and return on investment as a vertically integrated steel and steel related mining company.

As at 30 September 2012 the Group comprises three business divisions: Severstal Resources, Severstal Russian Steel, Severstal International.

### Recent Developments

Since 30 September 2012, the following significant developments have occurred:

- In October 2012, the Group issued US\$750.0 million bonds denominated in US dollars maturing in 2022. These bonds bear an interest rate of 5.9% per annum, which is payable semi-annually in April and October each year, beginning in April 2013. The proceeds from the bonds issuance will be used for general corporate purposes, including the refinancing of debt maturing in 2013.

## DESCRIPTION OF THE GDRS

Deutsche Bank Trust Company Americas has agreed to act as the depository for the GDRs. The depository'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 2EQ, United Kingdom. In this summary, the term "GDRs" refers to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are commonly known as "Global Depositary Receipt Certificates" or "GDR Certificates". The GDRs offered and sold in the United States are referred to and will be issued as the Rule 144A GDRs and the GDRs offered and sold outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the depository.

The depository has appointed Deutsche Bank Ltd. to act as the custodian for the safekeeping of the securities, cash or other property on deposit. The custodian's principal office is located at 82 Sadovnicheskaya Street, building 2, Moscow 115035, Russia.

Severstal has appointed the depository pursuant to two separate deposit agreements, one for the Rule 144A GDRs and one for the Regulation S GDRs. Copies of the deposit agreements are available for inspection by any holder of the GDRs at the principal offices of the depository during business hours. This is a summary description of the material terms of the GDRs and of each holder's material rights as an owner of the GDRs. Prospective investors should note that this summary is provided for informational purposes only, is not exhaustive, and is qualified in its entirety by reference to the terms of the deposit agreements, which determine rights and obligations of holders and beneficial owners of the GDRs.

Each GDR represents the right to receive one ordinary share of Severstal on deposit with the custodian. Each GDR will also represent the right to receive cash or any other property received by the depository or the custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs due to legal restrictions or practical considerations.

Each owner of a GDR is a party to the applicable deposit agreement and is therefore bound by terms of that deposit agreement and by the terms of the GDR certificate that represents the relevant GDR. The applicable deposit agreement and the GDR certificate specify the rights and obligations of Severstal, the owner of the GDR represented by the GDR certificate and the depository. Each GDR holder and beneficial owner appoints the depository to act as its attorney-in-fact, with full power to delegate, to act on its 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 depository in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable deposit agreement.

Initially, GDRs may only be held through a brokerage or safekeeping account. As such, each GDR owner must rely on the procedures of its broker or bank to assert its rights. Each GDR holder should consult with its broker or bank to determine what those procedures are.

No temporary master GDRs or other temporary documents of title have been or will be issued in connection with this offering.

### **Distinctions between Rule 144A GDRs and Regulation S GDRs**

The Rule 144A GDRs and the Regulation S GDRs are generally similar except for provisions designed to meet the requirements of the US securities laws. The Rule 144A GDRs are "restricted securities" under the US securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not technically "restricted securities" under the US securities laws, but are subject to certain contractual restrictions in order to prevent the transfer of Regulation S GDRs in violation of the US securities laws.

Differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs include the following:

- Eligibility for book-entry transfer. See "*— Settlement and Safekeeping*".
- Restrictions on the transfers, deposits and withdrawals of the ordinary shares underlying the GDRs. See "*— Transfer Restrictions*".
- Special restrictions on deposits and withdrawals that apply to affiliates of Severstal. See "*— Ownership of GDRs by affiliates*".

These differences and the restrictions imposed in accordance with US securities laws may require Severstal and the depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently from time to time. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

### **Settlement and Safekeeping Rule 144A GDRs**

#### ***Rule 144A GDRs***

The depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the offering will be registered in the name of Cede & Co., as DTC's nominee. One master Rule 144A GDR certificate will represent all Rule 144A GDRs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs 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 GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners. Owners of Rule 144A GDRs will not otherwise receive physical certificates representing their ownership interests in the Rule 144A GDRs.

#### ***Regulation S GDRs***

The depositary has made arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the offering will be registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depository for Euroclear and Clearstream. One master Regulation S GDR certificate will represent all Regulation S GDRs issued to and registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants, 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 GDRs 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 GDR owners.

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 GDRs, Severstal 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 Regulation S GDRs available in physical certificated form. Owners of Regulation S GDRs will not otherwise receive physical certificates representing their ownership interests in the Regulation S GDRs.

### **Transfer Restrictions**

The GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the US securities laws and are subject to the following restrictions:

#### ***Restrictions upon the Transfer of GDRs***

##### **Rule 144A GDRs**

The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only:

(i) outside the United States in accordance with Regulation S;

or

(ii) to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act;

or

(iii) pursuant to Rule 144 under the Securities

##### **Regulation S GDRs**

None

Act, if applicable;

or

(iv) pursuant to an effective registration statement under the Securities Act.

See also “— *Ownership of GDRs by affiliates*” below.

### ***Restrictions upon Deposit of Ordinary Shares***

#### **Rule 144A GDRs**

Ordinary 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 Severstal or an affiliate of Severstal or a person acting on behalf of Severstal or an affiliate of Severstal;

and

(ii) (a) a qualified institutional buyer or (b) a person outside the United States that is not a US Person, as defined in Regulation S under the Securities Act, and acquired, or agreed to acquire and will have acquired, the ordinary shares to be deposited outside the United States.

#### **Regulation S GDRs**

Ordinary 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 Severstal or an affiliate of Severstal or a person acting on behalf of Severstal or an affiliate of Severstal;

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 ordinary shares to be deposited from Severstal or an affiliate of Severstal in the initial distribution of ordinary shares and GDRs;

and

(iii) a person outside the United States that is not a US person, as defined in Regulation S under the Securities Act, and acquired, or agreed to acquire and will have acquired, the ordinary shares to be deposited outside the United States.

Ordinary 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 ordinary shares are not and may not be deemed to be “restricted securities” within the meaning of Rule 144(a) (3) under the Securities Act

Please also see “— *Ownership of GDRs by affiliates*” below.

### ***Restrictions upon the Withdrawal of Ordinary Shares***

#### **Rule 144A GDRs**

Ordinary shares may be withdrawn under the Rule 144A deposit agreement only by:

(i) a person other than a US person, as defined in Regulation S under the Securities Act, outside the United States who will be the beneficial owner of the ordinary shares upon withdrawal and acquired, or agreed to acquire and at or prior to the time of the withdrawal will have acquired, the Rule 144A GDRs Rule 144A GDR Certificates or the ordinary shares outside the

#### **Regulation S GDRs**

Ordinary shares may be withdrawn from deposit under the Regulation S deposit agreement by the holders of Regulation S GDRs.

United States;

or

(ii) a qualified institutional buyer, as defined in Rule 144A under the Securities Act, who

(a) has sold the Rule 144A GDRs to another qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act, or to a person other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S,

or

(b) will be the beneficial owner of the ordinary shares and agrees (1) to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the ordinary shares so withdrawn (2) not to deposit the ordinary shares in an unrestricted depository receipts facility for so long as the ordinary shares are “restricted securities” within the meaning of Rule 144 (a) (3) under the Securities Act.

Please also see “— *Ownership of GDRs by affiliates*” below.

## **General Restrictions**

### ***Restrictions on Transfer***

Severstal may restrict transfers of the ordinary shares where such transfer might result in ownership of ordinary shares exceeding the limits applicable to the ordinary shares under applicable law or Severstal’s charter. Severstal may also restrict transfers of the GDRs where such transfer may result in the total number of ordinary shares represented by the GDRs owned by a single holder or beneficial owner to exceed any such limits Severstal may, in its sole discretion, but subject to applicable law, instruct the depository 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 GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the ordinary shares represented by the GDRs 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 Severstal’s charter. The depository shall have no liability for actions taken in accordance with such instructions.

The registration of any 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 depository, Severstal, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by Severstal or the depository, 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 GDRs or ordinary shares are listed, or under any provision of the deposit agreements or provisions of, or governing, the ordinary shares, or any meeting of Severstal’s shareholders or for any other reason.

The depository 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 Severstal’s reasonable request.

### ***Restrictions on Deposits***

The depository will refuse to accept ordinary shares for deposit whenever it is notified in writing by Severstal that such deposit would result in any violation of applicable laws, including ownership restrictions under Russian laws. The depository will also refuse to accept certain ordinary shares for deposit under the Rule 144A deposit agreement if notified in writing that the ordinary shares are listed on a US securities exchange or quoted on a US automated inter-dealer quotation system, unless

accompanied by evidence satisfactory to the depositary that any ordinary shares presented for deposit are eligible for resale pursuant to Rule 144A under the Securities Act. The depositary may also, upon receipt of notice from Severstal, limit at any time the number of ordinary shares accepted for deposit under the terms of the deposit agreements so as to eliminate or minimise any requirements that may be imposed on us, the depositary or the GDR facilities existing under the terms of the deposit agreements under Russian law.

In addition, whenever the depositary believes that the ordinary shares deposited with it against issuance of GDRs (together with any other securities of Severstal deposited with it against the issuance of depositary receipts and any other securities of Severstal held by itself and its affiliates for its or their proprietary accounts or as to which it or they exercise voting and investment power) represent (or, upon accepting any additional ordinary shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, it may, after prior consultation with Severstal, (i) close its books to deposits of additional ordinary shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (ii) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying ordinary shares from the depositary receipt program to the extent necessary or desirable to so comply.

The depositary will have the right to close its books to the issuance of GDRs without prior consultation with Severstal, if at any time the depositary believes that (i) the shares deposited with it against issuance of GDRs together with any other securities of Severstal which shall have been deposited with the depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require a shareholder of a Russian open joint stock company to make a mandatory tender offer; or (ii) the shares deposited with it against issuance of GDRs together with any other securities of Severstal which shall have been deposited with the depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require an approval from FAS, and no necessary approval from FAS (or an exemption, exemptive interpretation or waiver from FAS of a requirement to obtain such an approval) has been obtained.

The depositary may also close its books to the deposit of shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until Severstal shall have produced a prospectus in accordance with the Prospectus Rules under the UK Financial Services & Markets Act 2000, as amended, and obtained a block listing on the Official List of the UK Financial Services Authority and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the depositary may, in its reasonable discretion, request after consultation with us.

In considering whether any threshold has been reached or exceeded, the depositary may, in addition to shares deposited with it against the issuance of GDRs and other Severstal's securities deposited with it against issuance of other depositary receipts, take into consideration shares or Severstal's other securities held by it and its affiliates for its or their proprietary accounts or as to which it or they exercise voting or investment power.

### **Dividends and Distributions**

Generally, each GDR holder has the right to receive distributions made by Severstal on the securities deposited with the custodian. Receipt of these distributions may be limited, however, by practical considerations and legal limitations. GDR holders will receive such distributions under the terms of the deposit agreements in proportion to the number of GDRs held as at a specified GDR record date, which the depositary will use reasonable efforts to establish as close as possible to the record date set by Severstal for the ordinary shares underlying the GDRs.

#### ***Distributions of Cash***

Whenever Severstal makes a cash distribution in respect of securities on deposit with the custodian, Severstal 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 US dollars and for the distribution of the US dollars to the GDR 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, charges, expenses taxes and governmental charges payable by holders under the terms of the deposit agreements. The depositary will apply the same method for distributing the proceeds of the sale of any property, such as undistributed rights, held by the custodian in respect of the securities on deposit.

#### ***Distributions of Shares***

Whenever a free distribution of ordinary shares in respect of the ordinary shares on deposit with the custodian, Severstal will deposit the applicable number of ordinary shares with the Custodian. Upon receipt of confirmation of such deposit from the custodian, the depositary will either distribute to holders additional GDRs representing the ordinary shares deposited or modify, to the extent permissible by law, the GDR-to ordinary shares ratio, in which case each GDR will represent rights and interests in the additional ordinary shares so deposited. Fractional GDRs will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-ordinary shares ratio upon a distribution of ordinary shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by GDR 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 additional ordinary shares so distributed.

No such distribution of new GDRs will be made in violation of applicable laws (including the US securities laws) or if it is not operationally practicable. If the depositary does not distribute new GDRs as described above, it may sell the ordinary shares received and 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 in accordance with the provisions of the applicable deposit agreement.

#### ***Distributions of Rights***

Whenever Severstal intends to distribute rights to purchase additional ordinary shares, it will give timely prior notice to the depositary and state whether or not it wishes such rights to be made available to the GDR holders. If the rights will be made available to GDR holders, Severstal will assist the depositary in determining whether it is lawful and reasonably practicable to distribute the rights to GDR holders.

The depositary will establish procedures to distribute rights to purchase additional GDRs to GDR holders and to enable GDR holders to exercise such rights only if the depositary has received Severstal’s 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 GDR holders, and Severstal has provided all of the documentation contemplated in the applicable deposit agreement, such as opinions to address the lawfulness of the transaction. Each GDR holder will be responsible for the related fees, charges, expenses and taxes and other governmental charges to subscribe for the ordinary shares upon the exercise of the rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by GDR holders of rights to purchase additional ordinary shares other than in the form of GDRs.

The depositary will not distribute the rights to you if:

- Severstal does not request that the rights be distributed to the GDR holders in a timely manner, or Severstal requests that the rights not be distributed to GDR holders; or
- Severstal fails to deliver satisfactory documents, such as opinions of counsel as to compliance with applicable law, to the depositary; or
- it is not reasonably practicable to distribute the rights.

The depositary will sell the rights that are not exercised or not distributed if 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 applicable to GDR holders in general or to any GDR holder 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 behalf of Severstal in connection with the rights distribution. There can be no assurance that GDR holders in general or any GDR holder in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of ordinary shares or to exercise such rights at all.

### ***Elective Distributions***

Whenever Severstal intends to distribute a dividend payable at the election of shareholders either in cash or in additional ordinary shares, it will give timely prior notice thereof to the depositary and will indicate whether it wishes the elective distribution to be made available to GDR holders. In such case, Severstal will assist the depositary in determining whether such distribution is lawful and reasonably practicable.

The depositary will make the election available to GDR holders only if it has received timely prior notice from Severstal, if it is reasonably practicable and if Severstal have provided all of the documentation contemplated in the applicable deposit agreement (such as opinions of counsel as to compliance with applicable law). In such case, the depositary will establish procedures to enable each GDR holder to elect to receive either cash or additional ordinary shares in the form of GDRs, in each case as described in the deposit agreement.

If the election is not made available to the GDR holders, GDR holders will, to the extent permitted by law, receive either cash or GDRs, depending on whether a shareholder in Russia would receive cash or shares on failing to make an election. The depositary is not obliged to make available to holders a method to receive the elective dividend in the form of shares rather than in the form of GDRs.

There can be no assurance that GDR holders or owners of beneficial interests in GDRs generally, or any GDR holder in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the ordinary shares.

### ***Other Distributions***

Whenever Severstal intends to distribute property other than cash, additional ordinary shares or rights to purchase additional ordinary shares, Severstal will timely notify the depositary in advance and will indicate whether it wishes such distribution to be made to GDR holders. If so, Severstal will assist the depositary in determining whether such distribution to GDR holders is lawful and reasonably practicable.

If the depositary has received timely prior notice from Severstal, it is reasonably practicable to distribute such

property to GDR holders and if Severstal has provided all of the documentation contemplated in the deposit

agreements, the depositary will distribute the property to the GDR holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by GDR holders under the terms of the deposit agreements. In order to pay such taxes and governmental charges, the depositary may sell all or a portion of the property received.

Under no circumstances will the depositary distribute the property to GDR holders if:

- Severstal does not request that the property be distributed to GDR holders or Severstal does not make such request in a timely manner or Severstal asks that the property not be distributed to GDR holders;
- Severstal fails to deliver satisfactory documents (such as opinions of counsel as to compliance with applicable law) to the depositary; or

- the depositary determines that all or a portion of the distribution to GDR holders is not lawful or reasonably practicable.

Under the circumstances set forth above, the depositary will sell the property, the proceeds of which will be distributed to GDR 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 reasonably practicable under the circumstances.

### **Redemption**

Whenever Severstal decides to redeem any of the securities on deposit with the custodian, Severstal will timely notify the depositary in advance. If the depositary has received timely notice from Severstal, determined that such redemption is practicable and received from Severstal all of the documentation (such as opinions of counsel as to compliance with applicable law) contemplated in the deposit agreements, the depositary will mail notice of the redemption to the GDR holders.

The custodian will be instructed to surrender the ordinary shares being redeemed against payment of the applicable redemption price. The depositary will convert the redemption funds received into US dollars in accordance with the terms of the deposit agreements and will establish procedures to enable GDR holders to receive the net proceeds from the redemption upon surrender of the GDRs to the depositary. See “— *Foreign Currency Conversion*” for actions the depositary is entitled to take if conversion, transfer and distribution of funds by the depositary is not practicable or lawful. The GDR holders will have to pay fees and charges of, and the expenses incurred by, the depositary, and any taxes upon the redemption of the GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a pro rata basis, as the depositary may determine.

### **Changes Affecting Ordinary Shares**

The ordinary shares held on deposit for the GDRs 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 ordinary shares or a recapitalisation, reorganisation, merger, consolidation or sale of assets affecting Severstal.

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 ordinary shares shall, to the extent permitted by law, be treated as new securities under the deposit agreements, and the GDR certificates shall, subject to the terms of the deposit agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The depositary in such circumstances may with Severstal’s approval, and shall if Severstal so requests and provides the depositary at Severstal’s own expense a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR certificates or make appropriate adjustments in its records, or call for the exchange of existing GDRs for new GDRs. If the depositary may not lawfully distribute such securities to GDR holders, the depositary may with Severstal’s approval sell such securities and distribute the net proceeds to GDR holders as in the case of a cash distribution, and shall do so upon Severstal’s request and provides the depositary at Severstal’s own expense a satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. GDR owners will have to pay fees and charges of, and the expenses incurred by, the depositary, and any taxes and other governmental charges upon the sale of such securities.

The depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to GDR holders in general or to any GDR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

### **Issuance of GDRs upon Deposit of Ordinary Shares**

Subject to limitations set forth in the deposit agreements and the GDRs, the depositary may create GDRs on your behalf if the GDR holder or its broker deposits the ordinary shares with the custodian. The depositary will deliver these GDRs to the person indicated by the GDR holder only after any applicable issuance fees and any charges and taxes payable for the transfer of the ordinary shares to the custodian are paid by the GDR holder and the applicable deposit certification is provided. Each GDR holder’s ability to deposit ordinary shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit.

The issuance of GDRs may be delayed until the depositary or the custodian receives confirmation that all required approvals have been given and that the ordinary shares have been duly transferred to the custodian. The depositary will only issue GDRs in whole numbers.

Each prospective GDR holder will be responsible for transferring good and valid title for deposited ordinary shares to the depositary, as evidenced by documents satisfactory to the depositary or the custodian. As such, each GDR holder will be deemed to have represented and warranted that:

- the ordinary shares are duly authorised, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emption, or similar, rights, if any, with respect to such ordinary shares have been validly waived or exercised;
- due authorisation to deposit the ordinary shares;
- the ordinary 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 ordinary shares under the Regulation S deposit agreement, the ordinary shares are not, and the Regulation S GDRs issuable upon such deposit will not be, “restricted securities”, as defined in Rule 144(a) (3) under the Securities Act, except in the case of deposits of a kind described in “— Ownership of GDRs by affiliates”;
- the ordinary shares presented for deposit have not been stripped of any rights or entitlements;
- the ordinary shares are not subject to any unfulfilled requirements of Russian law; and
- except as provided in the deposit agreements and summarised under “— Ownership of GDRs by affiliates” below, it is not, and shall not become while holding GDRs, an affiliate of Severstal.

If any of the representations or warranties above are incorrect in any way, Severstal and the depositary may, at the breaching GDR holder’s cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

*When ordinary shares are deposited under the Rule 144A deposit agreement, the prospective GDR holder will be required to provide the depositary with a deposit certification stating, among other things, that:*

- it acknowledges that the ordinary shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an affiliate of Severstal and it is not acting on behalf of Severstal or one of its affiliates;
- at the time of issuance of the Rule 144A GDRs it will be the beneficial owner thereof;
- it is (i) a qualified institutional buyer or (ii) a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States and acquired or has agreed to acquire and will acquire the ordinary shares to be deposited outside the United States; and
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the ordinary shares represented by the Rule 144A GDRs in accordance with the applicable US state securities laws and only:
  - to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; or
  - outside the United States to a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A deposit agreement and may be obtained from the depositary upon request.

*When ordinary shares are deposited to receive Regulation S GDRs, the prospective GDR holder will be required to provide the depositary with a deposit certification stating, among other things, that:*

- it acknowledges that the ordinary shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- it is not an affiliate of Severstal and it is not acting on behalf of Severstal or one of its affiliates;
- it is, or at the time the ordinary shares are deposited and at the time the Regulation S GDRs are issued, will be, the beneficial owner of the ordinary shares and the Regulation S GDRs to be issued upon deposit of such ordinary shares;
- it is a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States and acquired or has agreed to acquire and will acquire the ordinary shares to be deposited outside the United States; and
- it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the ordinary shares presented for deposit from Severstal or any of Severstal's affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S deposit agreement and may be obtained from the depositary on request.

#### **Withdrawal of Shares Upon Cancellation of GDRs**

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable deposit agreement, a GDR holder will be entitled to present its GDRs to the depositary for cancellation and then receive the corresponding number of underlying ordinary shares at the custodian's offices. The ability to withdraw the ordinary shares may be limited to US and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the ordinary shares represented by the GDRs, each GDR holder will be required to pay to the depositary the fees for cancellation of the GDRs and any changes and taxes payable upon the transfer of the ordinary shares being withdrawn and will be required to provide to the depositary the applicable withdrawal certification. Each GDR holder assumes the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding deposit agreement.

Each GDR holder must, upon the request of the depositary, provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel the GDRs. The withdrawal of the ordinary shares represented by GDRs may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. The depositary shall be entitled at all times to sell any fractional GDRs presented for cancellation and remit the proceeds of such sale to the GDR holder net of fees, expenses, charges and taxes.

When a GDR holder requests withdrawal of the ordinary shares represented by its Rule 144A GDRs, it will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on GDRs and to provide the depositary with a withdrawal certification stating, *among other things*, that:

(A) it acknowledges that the ordinary shares represented by its Rule 144A GDRs have not been and will not be registered under the Securities Act or with any other securities regulatory authority in any state or other jurisdiction in the United States; and

(B) it certifies that either:

(1) it is a qualified institutional buyer, as defined under Rule 144A of the Securities Act, acting for its own account or for the account of one or more other qualified institutional buyers, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either

- it has sold or agreed to sell the ordinary shares to a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S; or

- it has sold or agreed to sell the ordinary shares to a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act; or
- it will be the beneficial owner of the ordinary shares upon withdrawal; and
- it, or the person on whose behalf it is acting, will sell the ordinary shares only to another qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act; to a person, other than a US person, as defined in Regulation S under the Securities Act, outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the Securities Act; and
- it will not deposit the ordinary shares in any depositary receipts facility that is not a “restricted” depositary receipts facility;

or

(2) it is a person, other than a US person, as defined in Regulation S under the Securities Act, located outside the United States and acquired or agreed to acquire the ordinary shares outside the United States and will be the beneficial owner of the ordinary shares upon withdrawal.

Holders of Regulation S GDRs 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 GDRs for Regulation S GDRs by one of Severstal’s affiliates. See “— *Ownership of GDRs by affiliates*” below.

#### **Proofs, Certificates and Other Information; Obligations of Owners**

Each GDR holder 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 GDRs, 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 Severstal may reasonably require by written request to the depositary consistent with its obligations under the deposit agreements. The depositary and the registrar, as defined in the applicable deposit agreement, 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, and Severstal’s reasonable satisfaction.

Holders and beneficial owners of GDRs shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in the Russian Federation, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of the Russian Federation.

#### **Ownership of GDRs by Affiliates**

Severstal permits its affiliates to deposit ordinary shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the depositary, of the Rule 144A deposit agreement. Severstal also permits its affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting their 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. Severstal does not otherwise permit its affiliates to deposit ordinary shares against the issuance of Regulation S GDRs unless they certify to the depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the ordinary 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 GDRs by Severstal’s affiliates are more fully described in the deposit agreements.

#### **Voting Rights**

Each GDR holder generally has the right under the deposit agreements to instruct the depositary to exercise the voting rights for the ordinary shares represented by its GDRs. The voting rights of holders of the ordinary shares are described in “Description of Share Capital and Shareholder Structure”.

Upon Severstal’s timely written request, and provided no US or English legal prohibitions, including the rules of the London Stock Exchange, exist, the depositary will distribute to each GDR holder any notice of shareholders’ meetings or solicitation of consents or proxies from holders of ordinary shares received from Severstal together with information explaining how to instruct the depositary to exercise the voting rights of the ordinary shares represented by the GDRs.

If the depositary timely receives voting instructions from a GDR holder in the manner specified by the depositary, it will endeavour — insofar as practicable and permitted under applicable law, the provisions of the applicable deposit agreement, Severstal’s charter and terms of the ordinary shares — to vote or cause the custodian to vote the ordinary shares represented by the GDR holder in accordance with such voting instructions. Russian securities regulations expressly permit a depositary to split the vote of ordinary shares registered in its name in accordance with instructions from GDR holders. However, because the depositary does not have express statutory authority to split the vote with respect to the ordinary shares in accordance with instructions from GDR 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 ordinary shares in the same manner. Consequently, each GDR holder may have significant difficulty in exercising its voting rights with respect to the underlying ordinary shares.

Neither the depositary nor the custodian will, under any circumstances, exercise any discretion as to voting, vote any number of ordinary shares other than an integral number thereof or vote ordinary 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 ordinary shares except pursuant to and in accordance with instructions from GDR holders. If the depositary timely receives voting instructions from a GDR holder which fail to specify the manner in which the depositary is to vote the GDR holder’s underlying ordinary shares, the depositary will deem the GDR holder to have instructed the depositary not to vote the ordinary shares with respect to the items for which no instruction was given.

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 ordinary shares if the taking of such action would violate US, Russian or English laws, including the rules of the London Stock Exchange and the rules of any Russian exchange on which the ordinary shares are listed. Severstal has agreed in the deposit agreements that it shall not establish internal procedures that would prevent the depositary from complying with, or that are inconsistent with, the terms and conditions of the section of the deposit agreements that deals 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. GDR holders cannot be assured that they will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See generally “*Risk Factors — Risks Relating to the Offering, the Bonds and the GDR’s — Voting rights with respect to the ordinary shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of Russian law*”.

## ***Fees and Charges***

### **Service**

Issuance (save upon a change in ratio) or cancellation of GDRs\*

Issuance upon a change in the ratio of shares to GDRs

Distribution of cash dividends or other cash distributions

Distribution of GDRs pursuant to stock dividends, free stock distributions or exercise of rights

### **Fees**

Up to \$0.05 per GDR issued or cancelled, in accordance with a sliding scale corresponding to GDR price, as set out in the deposit agreements

Up to \$0.05 per GDR issued

Up to \$0.02 per GDR held, in accordance with a sliding scale corresponding to the net amount after tax, as set out in the deposit agreements

\$0.05 per GDR issued

Distribution of securities other than GDRs or rights to purchase additional GDRs	\$0.05 per ordinary shares (or ordinary share equivalent) distributed
Annual Depository Services Fee	Annually \$0.02 per GDR held at the end of each calendar year except to the extent of any cash dividend fee charged during such calendar year
Transfer of interests from and between the Regulation S GDRs and the Rule 144A GDRs	Up to \$0.05 per GDR
Inspection of share register	Annual fee of \$0.01 per GDR held as at the applicable record date to cover expenses incurred by the depository, the custodian or their respective agents in connection with the inspection of the share register maintained by the share registrar, provided that such fee will be charged to any GDR holder not more frequently than once in any calendar year

Each GDR holder will also be responsible for paying the following charges incurred by the depository:

- taxes, including applicable interest and penalties, and governmental charges;
- fees for the transfer and registration of ordinary shares charged by the share registrar (i.e., upon deposit and withdrawal of ordinary shares);
- fees and expenses incurred for converting foreign currency into US 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 ordinary shares on deposit.

Severstal has agreed to pay certain other charges and expenses of the depository. The fees and charges that a GDR holder may be required to pay may vary over time and may be changed by Severstal and by the depository. Each GDR holder will receive prior notice of such changes.

#### **Amendments and Termination**

Severstal may agree with the depository to modify the deposit agreements at any time without the consent of the GDR holders. Severstal undertakes to give the GDR 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 connections with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses. Severstal will not consider any modifications or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges the GDR holders are required to pay, to be materially prejudicial to the rights of the GDR holders. In addition, Severstal may not be able to provide the GDR holders with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provision of law.

Each GDR holder will be bound by the modifications to the deposit agreements if it continues to hold its GDRs after the modifications to the applicable deposit agreements become effective.

The deposit agreements cannot be amended to prevent the GDR holders from withdrawing the ordinary shares represented by the GDRs. Notwithstanding any such restriction on amendments or supplements to the deposit agreements, Severstal and the depository 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 GDR holders or within any other period required to comply with such laws, rules or regulations.

Severstal has the right to direct the depository to terminate the deposit agreements. Similarly, the depository may in certain circumstances on its own initiative terminate the deposit agreements. In addition, the depository may resign, with such resignation to take effect upon the earlier of 90 days

notice or the acceptance of appointment by a successor depositary, or Severstal may remove the depositary, with such removal to take effect upon the later 90 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 GDRs at least 30 days before termination.

Upon termination, the following will occur under the deposit agreements:

- for a period of six months after termination, each GDR holder will be able to request the cancellation of its GDRs and the withdrawal of the underlying ordinary shares and the delivery of all other property held by the depositary in respect of those ordinary 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 ordinary shares on deposit, such as dividends, but will not distribute any such property to a GDR holder until it requests the cancellation of its GDRs.
- after the expiration of such six-month period, the depositary may sell the securities held on deposit. The depositary will hold the net proceeds from such sale and any other funds then held for the GDR holder in an unsegregated, non-interest bearing account, without liability for interest. At that point, the depositary will have no further obligations to a GDR holder other than to account for the funds then held for the holders of GDRs 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 GDR holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. Each GDR holder may inspect such records at such office during the regular business hours but solely for the purpose of communication with other holders in the interest of business matters relating to the GDRs 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 GDRs, provided that the transfer of the GDRs shall only be effected by the registrar (as defined in the applicable deposit agreement), including the depositary in its capacity as the registrar. These facilities may be closed from time to time, to the extent not prohibited by law.

#### **Transmission of Notices to Shareholders**

Severstal will promptly transmit to the depositary those communications that Severstal generally makes available to its shareholders. If any communications are not in English, Severstal will translate the communications prior to transmitting them to the depositary. Upon Severstal's request and at its expense, the depositary will arrange for the mailing of copies of such communications to all GDR 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 Severstal's obligations and the depositary's obligations to the GDR holders, in particular:

- Severstal and the depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.
- Neither Severstal nor the depositary, nor any of 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 to any ordinary shares or in respect of the GDR certificates, which in their respective opinions may involve Severstal or the depositary, or any of their respective controlling persons or agents, or to any of their controlling persons or agents, as the case may be, against all expense or liability, unless an indemnity satisfactory to Severstal or the depositary, 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 and its agents disclaim 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.
- Severstal and the depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.
- Neither Severstal nor the depositary, nor any of 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 to any ordinary shares or in respect of the GDR certificates, which in their respective opinions may involve Severstal or the depositary, or any of their respective controlling persons or agents, as the case may be, against all expense or liability, unless an indemnity satisfactory to Severstal or the depositary, or to any of their respective controlling persons or agents, 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 and its agents disclaim any liability for any failure to carry out any voting instructions to vote any shares, or 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 or information forwarded to the GDR holders on Severstal's behalf of for the accuracy of any translation of such document or information, for any investment risks associated with acquiring an interest in the ordinary shares, for the validity or worth of the ordinary shares, for any tax consequences that result from the ownership of the shares or the GDRs, 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 Severstal's 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 ordinary 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 that in connection with the issue out of which such potential liability arises the depositary performed its obligations while it acted as depositary without negligence or bad faith.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing will not be obliged to do or perform any act that is inconsistent with the provisions of the deposit agreements.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if Severstal are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any law or regulation, any provision of its charter, any provision of or governing any securities on deposit or by reason of any act of God or war or other circumstances beyond its control, including, without limitation, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreements or in its charter or in any provisions of or governing the deposited securities.

- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing 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 GDR holders or authorised representatives thereof, or any other person believed by either of the foregoing in good faith to be competent to give such advice or information.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a GDR holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of ordinary shares but is not, under the terms of the deposit agreements, made available to holders of the GDRs.
- Severstal, the depositary, and Severstal's respective controlling persons and agents and the custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- Severstal, the depositary, and Severstal's or the depositary's affiliates and the respective officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, 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 Severstal's instructions to take actions 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 Severstal's charter.

### **Indemnification**

The depositary has agreed to indemnify Severstal and its 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 expense of counsel, which may arise out of acts performed or omitted by the depositary or the custodian or, provided that the custodian is a branch or subsidiary of Deutsche Bank AG, London Branch at the time of such act or omission, by the custodian under the deposit agreements due to the negligence or bad faith of the depositary or the custodian.

Severstal has 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, among other things, (i) out of any offer or sale of the GDRs or the ordinary shares, (ii) out of any offering document in respect thereof, except to the extent relation to any information provided by the depositary, (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 Severstal or any of its directors, officers, employees, agents and affiliates or (iv) out of the unavailability of deposited securities or the failure to make any distribution with respect thereto in the case of certain situations.

### **Pre-Release Transactions**

The depositary may, in certain circumstances, issue GDRs before receiving a deposit of ordinary shares or release ordinary shares before receiving GDRs 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, 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**

Severstal will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. Severstal, the depositary and the custodian may withhold or deduct from any distribution the taxes and governmental charges payable by GDR holders and may sell any and all ordinary shares on deposit to pay the taxes and governmental charges payable by GDR

holders. The GDR holders will be liable for any deficiency if the sale proceeds do not cover the taxes that are due. The depositary may refuse to issue GDRs, to deliver, transfer, split or combine GDRs or to release securities on deposit until all taxes and charges are paid by the GDR holder.

The depositary and the custodian may, but are not obligated to, take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on a GDR holder's behalf. However, each GDR holder 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 fulfil legal obligations. Each GDR holder and beneficial owner is required to indemnify Severstal, the depositary and the custodian and any of their respective agents, officers, employees and affiliates for, and to hold each of them and Severstal harmless, and to hold each of them harmless from, any claims with respect to taxes, including applicable interest and penalties thereon, based on any tax benefit obtained for such holder and beneficial owner.

The depositary is under no obligation to provide the GDR holders with any information about Severstal's tax status. The depositary shall not incur any liability for any tax consequences that may be incurred by the GDR holders on account of their ownership of the GDRs, including without limitation by virtue of Severstal's tax status.

### **Disclosure of Interests**

By purchasing GDRs, each GDR holder agrees to comply with requests from Severstal or the depositary pursuant to Russian law the rules and requirements of any stock exchange on which the ordinary shares are, or may be, registered, trade or listed, or Severstal's charter, which are made to provide information, among other things, as to the capacity in which a holder holds or owns a beneficial interest in the GDRs, and the ordinary shares, as the case may be, and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not a particular person or entity is a holder or owner of a beneficial interest in the GDRs at the time of such request.

### **Foreign Currency Conversion**

The depositary will arrange for the conversion into US dollars of all foreign currency received if such conversion is in the reasonable judgment of the depositary practicable, and it will distribute the US dollars in accordance with the terms of the deposit agreements. Each GDR holder 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 US dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary may take the following actions in its discretion:

- Convert the following currency to the extent practicable and lawful and distribute the US dollars to the GDR holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to GDR holders for whom the distribution is lawful and practicable.
- Hold the foreign currency, without liability for interest, for the relevant GDR 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 roubles, GDR holders may lose some or all of the value of the distribution.

### **Governing Laws and Arbitration of Disputes**

Although New York law has been chosen to govern the construction and interpretation of the deposit agreements and the GDRs, the rights of holders of the ordinary shares and other deposited securities and Severstal's obligations and duties in respect of such GDR 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 GDR holders agree that any dispute, controversy or cause of action against Severstal and/or the depositary arising out of the GDRs, the deposit agreements or any transaction contemplated therein, the ordinary 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 HOLDERS AND BENEFICIAL OWNERS OF GDRs, IRREVOCABLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED UNDER THE DEPOSIT AGREEMENTS, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

### **Russian Share Register**

Severstal has appointed CJSC “Partner” as the registrar of the ordinary shares in Russia and Severstal has agreed to continue such appointment so long as the GDRs remain outstanding or any of the deposit agreements remain in force.

Severstal has 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 reasonable efforts to cause the share registrar to provide unrestricted access by the depositary and the custodian to the register of shareholders regularly, and not less than monthly, so as to permit verification of the registration of the ordinary shares represented by the GDRs in the name of the depositary or the custodian or their respective nominees;
- use 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 reasonable efforts to cause the share registrar to promptly re-register the ordinary shares being deposited into or withdrawn from the GDR facilities, and
- use reasonable efforts to cause the share registrar to promptly notify the depositary (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 the ordinary shares, and (iii) any time the share registrar holds the ordinary shares for its own account.

In the deposit agreements, Severstal has 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 the ordinary 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 Severstal’s actions or the actions of Severstal’s 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, and actions of Severstal’s agents, Severstal’s present or future charter, or other documents relating to the ordinary shares, and any provisions of any securities Severstal issues or distributes and any related distribution or offering.

The depositary has agreed, for the benefit of the holders and beneficial owners of GDRs, to confirm not less frequently than monthly, the number of ordinary shares identified on the share register as being on deposit pursuant to the terms of the deposit agreements. Severstal has agreed with the depositary that the custodian shall maintain in custody duplicate share extracts provided by the share registrar and that any known 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 Severstal’s attention promptly. Severstal will use reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event Severstal is unable to obtain such reconciliation of records and the discrepancy exceeds 0.5 percent of the number of ordinary shares identified on the records of the depositary or the custodian as being on deposit under the terms of any

one of the deposit agreement. Severstal will give notice thereof to the holders and beneficial owners of GDRs, through the depositary, and the depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

#### **Securities Act Legends and Other Legends**

##### ***Legends for the Regulation S GDR certificates***

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US 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 HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS 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 GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY 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.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANISED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY OAO SEVERSTAL, AN OPEN JOINT STOCK COMPANY ORGANISED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT ONE ORDINARY SHARE DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

##### ***Legends for the Rule 144A GDR certificates***

## **DTC LEGEND**

Unless this certificate is presented by an authorised representative of The Depository Trust Company, a New York corporation (“DTC”), to the Depository or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorised representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorised representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US 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 RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS 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 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.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY 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 GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY 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 RECOGNISE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANISED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY (THE "DEPOSITARY"), HEREBY CERTIFIES THAT CEDE & CO., AS NOMINEE OF THE DEPOSITARY TRUST COMPANY ("DTC"), IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES ("SHARES"), OF JOINT STOCK COMPANY OAO SEVERSTAL, AN OPEN JOINT STOCK COMPANY ORGANISED UNDER THE LAWS OF THE RUSSIAN FEDERATION (THE "COMPANY"). AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT ONE ORDINARY SHARE DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT (AS HEREINAFTER DEFINED) WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD. (THE "CUSTODIAN").

## GDR PRICE HISTORY

The table below sets out, for the periods indicated, the reported high and low closing sales prices per GDR on the London Stock Exchange, the principal market for the GDRs. As at 20 December 2012, the closing price in U.S. dollars per GDR on the London Stock Exchange was U.S.\$12.43.

Quarter Ending	Price per GDR in U.S.\$	
	High	Low
<b>2012</b>		
30 September .....	14.21	10.40
30 June .....	13.85	10.77
31 March .....	15.20	12.14
<b>2011</b>		
31 December .....	15.05	9.29
30 September .....	18.95	10.05
30 June .....	19.37	15.82
31 March .....	18.99	16.12
<b>2010</b>		
31 December .....	16.39	12.84
30 September .....	14.66	8.91
30 June .....	14.98	8.96
31 March .....	13.87	9.64
<b>2009</b>		
31 December .....	9.05	6.88
30 September .....	7.52	4.05
30 June .....	6.00	3.09
31 March .....	4.09	2.11

Source: Bloomberg

Information about the past and further performance of the GDRs and their volatility can be obtained from Bloomberg.

The Company declared annual dividends for the years ended 31 December 2010 and 2011 of RUR 2.42 (U.S.\$0.09 at 27 June 2011 exchange rate) and RUR 3.56 (U.S.\$0.11 at 28 June 2012 exchange rate) per share and per GDR, respectively.

For the six months ended 30 June 2011 and 2012, the Company declared interim dividends of RUR 4.37 (U.S.\$0.14 at 30 September 2011 exchange rate) and RUR 1.52 (U.S.\$0.05 at 27 September 2012 exchange rate) per share and per GDR, respectively. There was no dividend declared for the six months ended 30 June 2010.

For the three months ended 31 March 2011 and 2012, the Company declared interim dividends of RUR 3.9 (U.S.\$0.14 at 2011 June 27 exchange rate) and RUR 4.07 (U.S.\$0.12 at 28 June 2012 exchange rate) per share and per GDR, respectively. There was no dividend declared for the three months ended 31 March 2010.

For the nine months ended 30 September 2010 and 2011, the Company declared interim dividends of RUR 4.29 (U.S.\$0.14 at the 20 December 2010 exchange rate) and RUR 3.36 (U.S.\$0.10 at the 30 December 2011 exchange rate) per share and per GDR, respectively.



## DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LAW

The Company's total share capital of RUR 8,377,186.60 consists of 837,718,660 ordinary shares, each with a par value of RUR0.01.

The Company's ordinary shares are currently traded on CJSC "MICEX Stock Exchange" and included into the quotation list "B" under the ticker "CHMF".

### History

Severstal's initial share capital of RUR5,518,548, representing the value of Severstal's assets at 1 July 1992, was divided into 5,518,548 shares of RUR1.00 each. Severstal sub-divided its shares on 5 May 1994 into 22,074,192 ordinary shares with a par value of RUR0.25 each. In January 2005, Severstal completed a 25:1 share split of its existing share capital, which was intended to increase liquidity.

Fifty-one percent of the shares in Severstal were offered to its workforce and management. As at 29 April 1994, the closing date for subscription for the first issue of Severstal's shares, 48 percent of those shares had been acquired by Severstal's workforce and management and the remaining 3 percent were sold at public auctions. Twenty percent of the shares in Severstal were assigned to governmental bodies for a period of three years.

The 20 percent shareholding retained in state ownership was later either distributed to Severstal's employees or sold to the public:

- 5 percent of the shares were placed in the Employee Shareholding Fund, of which 4.8 percent were distributed among Severstal's existing employees (2.7 percent on 23 October 1997 at no cost, and 2.1 percent on 26 October 1998 at par value). The remaining 0.2 percent were sold to the public at a cash auction in the first quarter of 1999;
- 5 percent of the shares were sold to the public at special auctions held on 25 August 1997 (4.86 percent) and on 5 February 1998 (0.14 percent); and
- 10 percent of the shares were transferred to Rossiiskaya Metallurgiya, a Russian government-owned company. Following the liquidation of Rossiiskaya Metallurgiya, this 10 percent was sold to the public at a special cash auction held on 24 June 1999.

Through participating in these public auctions and subsequently through market purchases and private transactions acting through investment vehicles, Alexey Mordashov has purchased shares in Severstal such that, as at 4 October 2006, he controlled, directly or indirectly, 90.09 percent of Severstal's share capital. The majority of Mr. Mordashov's purchases were concluded in the period from 1993 to 2001. Since 2001, Mr. Mordashov has purchased small numbers of shares from employees.

The remaining 29 percent of the shares in Severstal were retained by the Vologda Region's Property Management Committee in the form of preferred shares convertible on sale into ordinary shares. 27.3 percent of the preferred shares were converted into ordinary shares when sold to the public at a special voucher auction held on 5 May 1994. The remaining 1.7 percent of the preferred shares were converted into ordinary shares when they were sold to the public at a cash auction on 25 August 1994.

On 11 April 2006, the additional share issue of Severstal was registered with the FSFM. During the issue, Severstal placed 378,929,863 shares at a price of RUR320.74 each by way of a closed subscription, including 13,516,489 shares to existing shareholders exercising their statutory pre-emption rights (for cash) and 365,413,374 shares to the selling shareholder in exchange for the shares in the companies that constituted the Group's mining assets. As a result of the issue, Severstal's share capital increased from RUR5,518,548 to the amount of RUR9,307,846.63.

On 17 October 2006, another additional share issue of the Company in the amount of up to 85,000,000 shares, each with a par value of RUR0.01 was registered with the FSFM. During the issue the Company placed 76,916,692 additional shares, bringing the Company's share capital up to RUR10,077,013.55 split into 1,007,701,355 ordinary shares.

In March 2012, as a result of the separation of the Gold segment via a share exchange (see "*Eurobond Prospectus—Business—Discontinued Operations —Gold segment*" incorporated by reference herein), whereby 100 percent of the shares of Nord Gold, the segment's holding company, were exchanged for the Company's shares resulting in the increase of the Company's treasury stock, the Company repurchased its own shares through a series of transactions by means of a public tender offer during

June and July 2012 and subsequently reduced its share capital by cancelling 169,982,695 treasury shares on 26 July 2012 to its current amount of RUR 8,377,186.60.

### **Rights of Holders of Ordinary Shares**

As required by the Federal Law on Joint Stock Companies and Severstal's charter, all ordinary shares of Severstal have the same nominal value and grant identical rights to their holders. Each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- transfer that share freely without the consent of other shareholders;
- participate in general shareholders' meetings of Severstal with the right to vote on all issues within the competence of the general shareholders' meeting;
- receive dividends on that share;
- upon Severstal's liquidation, receive a pro rata portion of Severstal's assets after Severstal's obligations have been fulfilled;
- enter into transactions with regard to that share;
- receive information relating to Severstal and have access to Severstal's records in accordance with the procedure established by the relevant Russian laws and by Severstal's charter,
- challenge in court any resolution passed by a general shareholders' meeting in violation of applicable law or Severstal's charter if he did not participate in the relevant general shareholders' meeting or voted against the relevant resolution, and if that resolution violated his rights or legitimate interests;
- demand that Severstal repurchase all or some of the shares owned by him if he voted against, or did not participate in the voting on, any resolution passed by a general shareholders' meeting approving the reorganisation of Severstal, the conclusion of a major transaction subject to provisions of the Federal Law on Joint Stock Companies, and any amendment of Severstal's charter or approval of a new edition of Severstal's charter that restricts his rights;
- assign all or some of the rights conferred upon him, including the right to vote his share, to his representative on the basis of a power of attorney;
- receive information relating to Severstal and have access, among other things, to Severstal's foundation documents; documents confirming title to Severstal's assets; Severstal's internal regulations; minutes of Severstal's general shareholders' and board of directors' meetings; independent appraisers' reports; lists of Severstal's affiliates; lists of shareholders entitled to receive dividends; reports of the internal auditor, external auditor, and state and municipal financial control bodies; and quarterly reports, and receive copies of such documents for a reasonable fee;
- if holding 25 percent or more of Severstal's voting stock, have free access to accounting documents in accordance with Russian law and Severstal's charter;
- if holding, alone or with other shareholders, 2 percent or more of Severstal's voting stock, submit proposals for the annual shareholders' meeting and nominate candidates to the Audit Commission and to the board of directors and the counting commission within 60 days after the end of the fiscal year;
- challenge major and interested party transactions if entered into in violation of the applicable procedures;
- if holding, alone or with other shareholders, 10 percent or more of Severstal's voting stock, demand that the board of directors call an extraordinary shareholders' meeting or call a board of directors' meeting, or an unscheduled audit by the internal auditor;
- exercise pre-emption rights to acquire Severstal's shares in cases provided for by law; and
- exercise other rights of a shareholder provided in Severstal's charter, under Russian law or by decisions of a general shareholders' meeting.

### **Pre-Emption Rights**

The Federal Law on Joint Stock Companies grants existing shareholders a pre-emption right to purchase, in proportion to their existing holdings of Severstal's shares, any shares of the same class, or securities convertible into that shares, that Severstal proposes to place in an open subscription. Shareholders who voted against or did not participate in voting on the placement of Severstal's shares, or securities convertible into shares, in a closed subscription are entitled to acquire an amount of those shares or convertible securities in proportion to their existing holdings of the shares. These rules do not apply when the shares are placed solely among the existing shareholders and all those existing shareholders are entitled to acquire new shares in an amount that is proportionate to their existing holdings.

Generally, Severstal must provide its shareholders with 45 days' notice of their pre-emption rights prior to an offering of shares, or securities convertible into shares, during which time the shareholders may exercise their pre-emption rights and pay for the shares at a price that has already been fixed. According to Severstal's charter, notice to the shareholders can be sent to the shareholders by registered post or delivered by hand. Severstal must publish the notice in the Russian newspaper "Cherepovetsky Metallurg" and "Rossiyskaya Gazeta" ("Череповецкий Металлург" and "Российская газета" in Cyrillic letters). However, if the offer price of the shares, or the securities convertible into shares, is to be fixed only after the end of the period during which the shareholders may exercise their pre-emption rights, Severstal need only provide its shareholders with 20 days' notice of the proposed offering, in the same manner as described above, during which time the shareholders may exercise their pre-emption rights by sending a notice to Severstal to this effect. Once the offer price has been fixed and disclosed, shareholders must pay for their new shares within a period set by Severstal. That period must not be less than five business days.

## **Anti-Takeover Protection and Minority Shareholder Redemption Anti-Takeover Protection**

### ***Anti-Takeover Protection***

Since the entry into force of new legislation on 1 July 2006, new rules apply to the acquisition of shares in open joint stock companies. A summary of the relevant provisions of the Federal Law on Joint Stock Companies is set forth below, although investors should note that it is currently not entirely clear how such provisions will be applied in practice.

### ***Voluntary Public Offer***

A person intending to purchase more than 30 percent of the total number of the ordinary shares and preference shares (provided that those shares carry voting rights), or voting shares, in an open joint stock company (taking into account shares already held by it and its affiliates) has the right to make a public offer to all the shareholders of the company, or a voluntary public offer.

### ***Compulsory Public Offer***

Within 35 days after acquisition by any means of more than 30 percent of a company's voting shares, the acquirer will have to make a public offer to purchase the remaining voting shares, and securities convertible into such voting shares, or the securities, from the holders of such securities, or a compulsory public offer. The obligation to make a compulsory public offer also arises for a shareholder who has acquired voting shares and, as a result of such acquisition, the number of the voting shares held by it and its affiliates has passed the threshold of 50 percent or 75 percent of the company's voting shares. The price of the securities to be specified in the compulsory public offer may not be lower than (i) the average trading price of the securities over the six months immediately preceding the date on which the FSFM is notified of the compulsory public offer (if the securities are admitted to trading on a stock exchange) or their market value determined by an independent appraiser (if the securities are not traded), or (ii) the maximum price for which the shareholder who has made the compulsory public offer (or its affiliates) has acquired or agreed to acquire such securities over the six months immediately preceding the date on which the compulsory public offer is made.

### ***Competing Public Offer***

At any time after the company receives a voluntary or a compulsory public offer, and up to 25 days prior to the expiry of the relevant acceptance period, any person has the right to make a competing public offer (that satisfies the requirements for voluntary or compulsory public offers) to purchase a number of securities, and at a price, that is greater than or equal to that of the original offer. Any securityholder may revoke its previous acceptance of the original offer and accept the competing offer.

A copy of the competing offer must be sent to the person who made the original offer so that such person may amend its offer by increasing the purchase price and/or shortening the settlement period.

### **Public Offer Requirements**

Voluntary and compulsory public offers, or offers, to the holders of the securities to be acquired must contain information provided by the Federal Law on Joint Stock Companies and be sent through the company, and an offer is deemed to have been made to all holders of the securities to be acquired as at the time at which the offer is received by the company. According to the Federal Law on Joint Stock Companies, an offer sent to a company must have a bank guarantee enclosed with it that sets out the guarantor's obligations to meet the acquirer's payment obligations. The guarantor's details and the bank guarantee conditions must be specified in the offer sent to the company. The bank guarantee must be effective for at least six months after the expiry of the relevant acceptance period.

According to the Federal Law on Joint Stock Companies, a person intending to make an offer must send that offer to the FSFM, which has the power to issue an order to bring the offer into compliance with the requirements set forth in the Federal Law on Joint Stock Companies. In the event that the offeror proposes to acquire securities that are traded on a stock exchange, the offer must be sent to the FSFM 15 days prior to its delivery to the company. If the securities to be acquired are not traded on a stock exchange, the offer must be sent to the FSFM on or before the date of its delivery to the company.

The board of directors of a company that receives an offer must make a recommendation with respect to such offer within 15 days after receipt of the offer. The company must send that recommendation, together with the offer in respect of which it is made, to all holders of the securities to be acquired.

The Federal Law on Joint Stock Companies provides that, during the acceptance period, the offeror may not acquire securities with respect to which it has made the offer on terms other than the terms specified in the offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Federal Law on Joint Stock Companies: the acceptance period may be no less than 70 days and no more than 90 days (in the case of voluntary public offers) or 80 days (in the case of compulsory public offers) from the date on which the offer was received by the company. The holders of the securities to be acquired may accept the offer by sending the offeror an application to sell their securities by mail, or by any other means provided for in the offer.

When a company receives an offer, decisions on certain important corporate issues (for example, the placement of additional securities; the approval of a transaction or a series of related transactions whose value exceeds 10 percent of the company's balance sheet assets as at the date of the company's last accounts; the approval of interested party transactions; and other issues specified in the Federal Law on Joint Stock Companies) shall be adopted only by a general meeting of the shareholders of such company. The competence of the general meeting of the company's shareholders is therefore extended as a result of the company receiving an offer.

### ***Minority Securityholder Redemption/Squeeze-Out***

If as a result of either a voluntary or a compulsory public offer the acquirer, alone or with its affiliates, purchases more than 95 percent of the voting shares, it will be obliged to (i) notify all the other holders of the securities (within 35 days after the acquisition of voting shares above such threshold) of their right to sell their securities, and (ii) purchase the securities of each minority securityholder upon request. In turn, the acquirer will have the right to make a binding buy-out demand requiring the minority securityholders to sell their securities.

### **Dividends and Dividend Rights**

The Federal Law on Joint Stock Companies sets out procedures for the payment of dividends by Severstal. According to Severstal's charter, Severstal may declare dividends based on first quarter, six-month, nine-month and/or annual results. The amount of dividends is recommended to a general shareholders' meeting by a majority vote of the board of directors and is approved at a general shareholders' meeting by a majority vote. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of the relevant period; a decision on annual dividends must be taken at the annual general shareholders' meeting. The amount of dividends approved at a general shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of Severstal's shares as at the record date for the shareholders' meeting approving the dividends. For the purpose of compiling the list of shareholders

entitled to receive dividends, a nominee shareholder should furnish information about the persons in whose interest such nominee shareholder holds the shares. Dividends may be paid in cash, by wire transfer or in kind. Dividends are not paid on treasury shares.

Under the Federal Law on Joint Stock Companies, dividends on Severstal's shares may be declared and paid on ordinary shares only out of net profits calculated under Russian accounting principles, provided that:

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

### **Distributions to Shareholders on Liquidation**

Under Russian law, the liquidation of a company results in the company ceasing to exist without its rights and obligations being transferred to other persons as legal successors. The Federal Law on Joint Stock Companies allows Severstal to be liquidated:

- by a three-quarters majority vote at a general shareholders' meeting; or
- by a court order.

Following a decision to liquidate Severstal, the right to manage Severstal's affairs passes to a liquidation commission that, in a voluntary liquidation, is appointed by a shareholders' meeting and, in an involuntary liquidation, is appointed by the court. Severstal's creditors may file claims within a period to be determined by the liquidation commission but which must extend for at least 2 months from the date of publication of the notice of liquidation by the liquidation commission.

Under the procedure established by the Russian Civil Code, after all the creditors' claims have been satisfied the remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase under Russian law;
- payments of declared but unpaid dividends on preference shares and the liquidation value of the preference shares, if any; and
- payments and distributions to holders of ordinary and preference shares in proportion to their shareholdings.

### **Registration and Transfer of Shares**

All shares of Severstal are ordinary shares in registered form. Russian legislation requires that a joint stock company provide for a register of its shareholders to be maintained. A register of shareholders may be maintained by a company itself or by a specialised registrar. The Federal Law on Joint Stock Companies requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a specialised registrar. Ownership of registered shares is evidenced by entries made in such register. Shareholders of Severstal may obtain extracts from that share register certifying the number of shares that they hold. ZAO "Partner" (ЗАО "Партнер" in Cyrillic letters), an independent registrar, operates and maintains the register of Severstal's shareholders.

Purchases, sales or other transfers of shares are accomplished through registration in the share register or the registration of the transfer with a depositary if shares are held through a depositary. In the latter case, the depositary is considered the nominal holder of Severstal's shares. The registrars and depositaries are not allowed to require any documents other than those expressly provided for by law in

order to register a transfer of shares in the register or with a depository. Any refusal by a registrar or a depository to register the shares being transferred in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is unlawful and may be disputed through the courts.

### **Exchange Controls**

Russian currency control legislation regulates certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities and domestic securities (including Severstal's shares), as well as certain types of settlements in roubles between residents and non-residents of Russia. Currently, certain types of currency operations may be performed only in roubles, for example transactions between residents and non-residents of Russia with respect to internal securities such as Severstal's shares. These requirements increase balances in Severstal's rouble-denominated accounts and, consequently, its exposure to currency devaluation risk, and will remain in force until 1 January 2007. In addition, Russian companies, subject to certain exceptions, must repatriate 100 percent of offshore receipts to Russia.

The CBR may impose such restrictions as the requirement to use special bank and securities accounts with an authorised Russian bank in relation to a number of operations between residents and non-residents expressly set forth in the Federal Law dated 10 December 2003 No. 173-FZ "On Currency Regulation and Currency Control", as amended, in particular:

- the acquisition of Russian securities by foreign investors and foreign securities by Russian investors; and
- grants or receipts of loans and credits between residents and non-residents of Russia.

Currently, no such restrictions have been introduced by the CBR.

### **Remittance of Dividends, Interest or Other Payments to Non-Residents**

The Federal Law dated 9 July 1999 No. 160-FZ "On Foreign Investments in the Russian Federation", as amended, specifically guarantees foreign investors the right to repatriate their earnings from investments in Russia.

The ability of investors to convert roubles into US dollars (in cases where dividends are paid in roubles) is subject to the availability of US dollars on Russian currency markets. Although foreign exchange markets exist in Russia, including the inter-bank currency exchange and the over-the-counter and currency futures markets, the further development of these markets is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside Russia, and no viable market in which to hedge roubles and rouble-denominated investments.

### **Shareholders' Agreements**

The Joint Stock Companies Law provides for the possibility to enter into shareholders' agreements in respect of Russian joint stock companies. Thus, the Joint Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholder rights, including, inter alia:

- (i) to vote in a certain manner at a General Shareholders' Meeting;
- (ii) to coordinate voting with other shareholders;
- (iii) to acquire or dispose of shares at a pre-determined price or upon occurrence of certain circumstances;
- (iv) to refrain from disposing of shares until occurrence of certain circumstances; and
- (v) to perform jointly other actions relating to the company's management, activities, reorganisation and liquidation.

Provisions of the Joint Stock Companies Law in respect of shareholders' agreements are very generic, rather vaguely drafted and remain largely untested. It is still to be seen how this new regulation will be implemented and enforced in practice.

### **Notification to the FSFM and Disclosure of Equity Interests**

A joint stock company that, as a result of one or several transactions, obtains more than 20 percent of voting shares in another joint stock company must disclose such information in the form and substance required by Russian legislation.

Pursuant to the Federal Law dated 22 April 1996 No. 39-FZ “On the Securities Market”, or the Federal Law on the Securities Market, a shareholder who acquires ordinary shares in a Russian company must notify this company and the FSFM no later than five days after the acquisition by it of 5 percent or more of the company’s ordinary shares, as well as after a subsequent acquisition or disposal of these shares such that the level of its holding of the company’s ordinary shares passes the threshold of 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent of the company’s ordinary shares. Holders of Severstal’s shares should file the relevant notification with the FSFM and the company no later than five days after any of the above events has occurred. Upon receipt of the notification from the shareholder, Severstal must publicly disclose the relevant information as a material event.

### **Liability of Shareholders**

The Russian Civil Code and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear the risk of loss of their investments only.

This general rule may not apply to shareholders who are capable of giving binding instructions or otherwise directing the business of a Russian joint stock company. Specifically, an investor may be held secondarily liable for Severstal’s debts in the event of its insolvency or bankruptcy if: (i) the investor is capable of giving binding instructions or otherwise directing the business of Severstal, (ii) such insolvency or bankruptcy was caused by the investor’s actions or omissions, and (iii) the investor knew in advance that such actions or omissions would result in the insolvency or bankruptcy of Severstal.

In addition, the general rule on limited liability described in the first paragraph above may not apply when one company (the effective parent) is capable of determining the decisions of another company (the effective subsidiary).

If the effective subsidiary is a joint stock company, the effective parent bears joint and several liability for a transaction entered into by the effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for by the charter of the effective subsidiary or in a contract between the companies. If the effective subsidiary is a limited liability company, the effective parent bears joint and several liability if the effective parent caused the effective subsidiary to enter into the transaction (without regard to how the effective parent’s ability to determine the decisions of the effective subsidiary arises).

An effective parent, a shareholder, a participant or any other person that is capable of determining the decisions made by an effective subsidiary may be held secondarily liable for such company’s debts in the event of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, the effective parent, shareholder, participant or other person capable of determining its decisions will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions of such effective parent, shareholder, participant or other person; and (ii) such effective parent, shareholder, participant or other person knew in advance that such actions would result in the insolvency or bankruptcy of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent, shareholder, participant or other person capable of determining its decisions will be held secondarily liable if the effective subsidiary’s insolvency or bankruptcy is caused by the wilful misconduct or negligence of such effective parent, shareholder, participant or other person.

Shareholders (other than the effective parent) of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary’s losses from the effective parent if (i) the effective parent caused the effective subsidiary to do or omit to do any act that resulted in loss, and (ii) the effective parent knew in advance that such act or omission would result in loss. Participants (other than the effective parent) of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary’s losses from the effective parent if the effective parent through its fault caused the effective subsidiary to do any act that resulted in loss. In both cases, it does not matter how the effective parent’s ability to make decisions for the effective subsidiary arises.

## **Alteration of Share Capital**

### ***Share Capital Increase***

Severstal's share capital may be increased by:

- issuing new shares, or
- increasing the nominal value of the outstanding shares.

According to the Federal Law on Joint Stock Companies and Severstal's charter, a decision to increase the share capital by issuing additional shares must be taken by unanimous vote of the board of directors, except where the decision is one that must be taken by Severstal's general shareholders' meeting. A decision on the issuance of shares, or securities convertible into shares, by closed subscription, or an issuance by open subscription of ordinary shares, or securities convertible into ordinary shares, constituting more than 25 percent of the number of issued ordinary shares, requires a three-quarters majority vote by a general shareholders' meeting. Increasing the nominal value of outstanding issued shares requires a majority vote at a shareholders' meeting.

New shares may only be issued if there are sufficient authorised but unissued shares provided for by Severstal's charter. The authorisation and issue of shares above the number of authorised shares provided for by Severstal's charter necessitates an amendment to the charter, which requires a three-quarters majority vote at a general shareholders' meeting.

The Federal Law on Joint Stock Companies requires that when determining the placement price of a company's shares, the board of directors must set the price on the basis of the market price (such price not being less than the nominal value of the shares). The board of directors may, but is not required to, involve an independent appraiser to set the placement price of the shares. In cases when the price for the company's shares is regularly published, the board of directors is required to take into account such price. The placement price for existing shareholders exercising a pre-emption right to purchase shares may be less (but in any event no more than by 10 percent) than the price paid by third parties.

The Federal Law on the Securities Market and securities regulations set out detailed procedures for the registration and issue of shares of a joint stock company, including:

- the adoption of a decision on an increase of share capital by the placement of additional shares;
- the adoption of a decision on a share issue;
- the registration of a share issue with the FSFM;
- the placement of the shares;
- the registration of the report or filing of the notification of the results of the share issue; and
- public disclosures at the necessary stages of the issue.

### ***Share Capital Reduction and Share Buy-Backs***

The Federal Law on Joint Stock Companies does not allow a company to reduce its share capital below the statutory minimum level. As at 31 August 2006, the minimum share capital for an open joint stock company was RUR100,000. Severstal's charter requires that any decision to reduce its share capital, whether through repurchase and cancellation of shares or a reduction in the nominal value of the shares, may be made by a simple majority vote at a general shareholders' meeting. Additionally, within 30 days of a decision to reduce Severstal's share capital, Severstal must publish a notice of the decision and must issue written notice to its creditors. Severstal's creditors will then have the right to demand, within 30 days of publication or receipt of Severstal's notice, the repayment of all amounts due to them, as well as compensation for damage.

The Federal Law on Joint Stock Companies allows the shareholders or the board of directors, depending on the particular case, to authorise the repurchase of up to 10 percent of Severstal's shares in exchange for cash. The repurchased shares must either be resold within 1 year of their repurchase or the shareholders must cancel those shares and then either decrease the share capital or increase the nominal value of the remaining shares to preserve the total amount of share capital.

The Federal Law on Joint Stock Companies allows Severstal to repurchase its shares only if, at the time of repurchase:



- Severstal's share capital has been paid up in full;
- the value of Severstal's net assets is not less (and would not become less as a result of the proposed repurchase) than the sum of Severstal's share capital, the reserve fund and the difference between the liquidation value and the nominal value of Severstal's issued and outstanding preference shares, if any;
- Severstal has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- Severstal is not, and will not become, insolvent as a result of the repurchase; and
- other requirements of Russian legislation have been met.

Russian legislation and Severstal's charter provide that Severstal's shareholders may demand repurchase of their shares if they voted against, or did not participate in, the voting on any of the following events:

- the reorganisation of Severstal;
- any amendment to Severstal's charter or approval of a new edition of Severstal's charter which limits the rights of these shareholders; or
- the approval of a major transaction subject to the provisions of the Federal Law on Joint Stock Companies.

Severstal may use up to 10 percent of its net asset value for share repurchases requested by shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 percent of Severstal's net asset value, Severstal must repurchase from each shareholder exercising the right to request repurchase a number of shares proportionate to the number of shares specified in the request of that shareholder.

### **Interested Party Transactions**

Under the Federal Law on Joint Stock Companies, certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of Severstal. "Interested party transactions" include transactions involving a member of the board of directors or a member of any executive body of Severstal (including Severstal's chief executive officer and/or Severstal's managing organisation); any person that owns, together with any affiliates, at least 20 percent of Severstal's issued voting stock; or any person who is able to direct the actions of Severstal, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates, is/are:

- a party to, or beneficiary of, a transaction with Severstal, whether directly or as a representative or intermediary;
- the owner of at least 20 percent of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with Severstal, whether directly or as a representative or intermediary; or
- a member of any management body of a company that is a party to, or beneficiary of, a transaction with Severstal, whether directly or as a representative or intermediary, or a member of any management body of a management organisation of such a company,

or in other cases provided by Russian legislation.

The Federal Law on Joint Stock Companies requires that an interested party transaction by a company with more than 1,000 shareholders holding voting shares be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For the purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, (i) the general director, (ii) a member of any executive body, (iii) an affiliate of the company except for being its director, (iv) a member of any management body of the company's management organisation or (v) a person whose close relatives held positions on management bodies of the company or the managing company or were sole manager of the company. For companies with 1,000 or fewer shareholders holding voting shares, an interested party transaction

must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2 percent or more of the balance sheet value of the company's assets determined under RAS;
- the transaction or a number of interrelated transactions involves the placement by subscription or secondary market sale of shares exceeding 2 percent of the company's issued ordinary shares and ordinary shares, into which issued convertible securities may be converted;
- the transaction or a number of interrelated transactions involves the placement by subscription of issued securities that may be converted into ordinary shares constituting more than 2 percent of the company's issued ordinary shares and ordinary shares, into which issued convertible securities may be converted;
- for companies with 1,000 or fewer shareholders holding voting shares, the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- for companies with more than 1,000 shareholders holding voting shares, all the members of the board of directors of the company are interested parties, or none of them is an independent director.

The approval of interested party transactions is not required in certain instances provided by the Federal Law on Joint Stock Companies, such as if the transactions are connected with the execution of pre-emption rights of existing shareholders to purchase newly issued shares or securities converted into shares, or if the transactions are connected with the repurchase, whether mandatory or not, by the company of its issued shares.

Any interested party transaction must be approved prior to its execution. Any interested party transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim brought by the company or any of the company's shareholders.

### **Major Transactions**

The Federal Law on Joint Stock Companies defines a "major transaction" as a transaction, or a series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal, of property worth 25 percent or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions in connection with the placement through a subscription of ordinary shares, or securities convertible into ordinary shares. Major transactions involving assets worth from 25 percent to 50 percent of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing such approval, a simple majority vote of a general shareholders' meeting. Major transactions involving assets worth in excess of 50 percent of the balance sheet value of the assets of a company require a three-quarters majority vote of shareholders present at a general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to a claim brought by Severstal or any of Severstal's shareholders.

### **Disclosure of Information**

Russian securities regulations require Severstal periodically to make the following public disclosures and filings:

- disclosing on Severstal's Internet site and filing with the FSFM quarterly reports containing information about Severstal, its shareholders and registrar, the structure of Severstal's corporate bodies, the members of the board of directors, the branches and representative offices of Severstal, Severstal's shares, important developments during the reporting quarter and other information about Severstal's financial and business activities;
- disclosing on Severstal's Internet site, filing with the FSFM, publishing in the press and in the FSFM's periodical print publication, and disclosing through other public news media certain information about material changes in Severstal's financial and business activities, changes in the composition of the board of directors, a change of Severstal's general director, and other material changes concerning Severstal, or material events;

- disclosing on Severstal's Internet site, publishing in the press and in the FSFM's periodical print publication, and disclosing through other public media information on each stage of a new issue of Severstal's securities;
- disclosing changes in shareholding and ownership as required by applicable legislation;
- disclosing Severstal's annual reports, charter, internal regulations and financial statements prepared in accordance with RAS on Severstal's Internet site;
- disclosing on Severstal's Internet site and filing with the FSFM on a quarterly basis a list of persons who are affiliates of Severstal;
- disclosing on Severstal's Internet site, filing with the FSFM and disclosing through other public news media information which may have a significant impact on the price of Severstal's securities; and
- filing and/or disclosing other information as required by applicable Russian securities legislation.

As at the date of these Listing Particulars, Severstal uses the newspaper "Prilozhenie k Vestniku FSFR" (Приложение к Вестнику ФСФР in Cyrillic letters) for disclosures requiring publication in the press such as the publication of information about material events and new issues of Severstal's securities.

Severstal is also obliged to disclose material events and some other information through certain Russian newswire services (currently Interfax and AK&M) prior to disclosing such information by any other means.

The board of directors has adopted internal regulations on information policy and on insider information. These regulations set forth, among other things, procedures for managing information within Severstal.

## TAXATION

### RUSSIAN FEDERATION

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Bonds. This summary is based on the laws and regulations of Russia as in effect at the date of this Prospectus (where they are subject to changes which could occur frequently, at short notice and could apply retroactively).

This summary does not seek to address the applicability of, and/or any procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia or tax implications arising for the Bondholders applying special tax regimes available under Russian tax legislation. Similarly, this summary does not seek to address the availability of double tax treaty relief to, and the eligibility for, double tax relief of any Bondholder in respect of income payable to that Bondholder on the Bonds or practical difficulties connected with claiming such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the Bondholders in connection with entering into REPO or stock-lending transactions with the Bonds or into term deals, derivatives or any similar types of transactions with the Bonds.

Many aspects of Russian tax laws and regulations are subject to significant uncertainty and lack of the interpretive guidance resulting in different interpretations and inconsistent applications of them by various authorities in practice. Further, provisions of Russian tax laws and regulations applicable to financial instruments may be subject to more rapid and unpredictable changes (possibly with the retroactive effect) and inconsistent interpretations than in jurisdictions with more developed capital markets and tax systems. In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia and their representatives may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, in the absence of binding precedents, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may be inconsistent or contradictory.

The Bondholders should consult their own tax advisors with respect to the tax consequences of their operations with the Bonds and the receipt of any payments under the Guarantee arising in their particular circumstances, including the applicability of any available double tax treaty relief.

### Taxation of the Bonds

#### *General*

For the purposes of this summary, the term “**Non-Resident Bondholder**” means:

- a legal entity or an organisation, in each case not organised under the Russian law, which acquires, holds and disposes of the Bonds otherwise than through its permanent establishment in Russia (the “**Non-Resident Bondholder-Legal Entity**”), and
- an individual who is not actually present in Russia for an aggregate period of 183 calendar days or more in a period comprised of 12 consecutive months (the “**Non-Resident Bondholder-Individual**”), who acquires, holds and disposes of the Bonds.

The presence in Russia for Russian personal income tax residency purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than 6 months) for medical treatment or education purposes.

Currently, the Russian Tax Code is generally interpreted by both the Russian tax authorities and taxpayers such that days of arrival as well as days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia. However, the Group is aware of a court case where the court expressed the opinion that days of arrival should not be taken into account as opposed to days of departure.

For the purposes of this summary, the term “**Resident Bondholder**” means any Bondholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Bondholder.

For the purposes of this summary, definitions of “Resident Bondholder” and “Non-Resident Bondholder” in respect of individuals are taken at face value based on the wording of the Russian tax law as currently written. In practice, however, the application of the above formal residency definitions

by the Russian tax authorities may differ depending on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either a tax resident or non-resident in Russia for the full calendar year.

Consequently, if the travel pattern dictates a differing tax residency status for a part of the tax (calendar) year, the application of Russian personal income residency tax rate may in practice be disallowed. This situation may be altered by the introduction of amendments to provisions of the Russian Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by positive outcomes of tax controversy through the courts.

Russian taxation rules may be affected by the provisions of the applicable double tax treaties. The Russian tax treatment of interest payments made by the Company to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Bondholders.

#### ***Resident Bondholders***

Resident Bondholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with the acquisition, ownership, sale and/or other disposal of the Bonds.

Resident Bondholders should consult their own tax advisers with respect to the effect that the acquisition, holding, sale and/or disposal of the Bonds may have on their tax position.

#### ***Non-Resident Bondholders***

#### **Taxation of Non-Resident Bondholders Individuals**

##### ***Acquisition of the Bonds***

The acquisition of the Bonds by Non-Resident Bondholders-Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of the acquisition of securities. In particular, if the acquisition price of the Bonds is below the lower margin of the fair market value of the Bonds determined in accordance with the procedure for determination of market prices of securities for Russian personal income tax purposes, the difference may become subject to a Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of the acquisition).

Under the Russian tax legislation, Russian tax treatment of income derived by Non-Resident Bondholders-Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit receivable by individuals should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income, if the Bonds are purchased “in Russia”. In the absence of any explicit guidance as to what should be considered as a purchase of securities “in Russia”, in practice the Russian tax authorities may apply various criteria to determine the source of the related material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria.

There is no assurance therefore that as a result any material benefit received by the Non-Resident Bondholders-Individuals in connection with the acquisition of the Bonds will not become taxable in Russia. In case however the Bonds are initially issued at par, the above provisions are likely to be relevant for the acquisitions of the Bonds in the secondary market only.

##### ***Interest on the Bonds and Repayment of Principal on the Bonds***

Non-Resident Bondholders-Individuals generally should not be subject to Russian personal income tax in respect of payments of interest and principal on the Bonds received from the Issuer.

Interest payable on the Bonds may be affected by the tax treatment of interest payable on the Loan (please see “*Risk Factors - Interest payments on the Loan may become subject to Russian withholding tax*”). In particular, there is a risk that the Russian tax authorities will seek to expand the logic set out in the Letter of the Russian Ministry of Finance by broadening the concept of the beneficial ownership/factual recipient of income from payment of interest on the loans within the Eurobonds structures to include the matter of sourcing of interest on the Bonds. On this basis they could conclude that interest on the Bonds represents income derived from Russian sources. There is no

assurance under such circumstances that as a result any interest on the Bonds received by the Non-Resident Bondholders-Individuals will not become taxable in Russia.

### ***Sale or other Disposal of the Bonds***

If proceeds from the sale or other disposal of the Bonds received by a Non-Resident Bondholder-Individual qualify as Russian source income for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30 percent (or such other rate as may be effective at the time of payment).

Since the Russian Tax Code does not contain any additional guidance as to when the sales or disposal proceeds should be deemed to be received from Russian sources by an individual not residing for tax purposes in Russia, in practice the Russian tax authorities may infer that such income should be treated as Russian source income if the Bonds are sold or disposed “in Russia”. In the absence of any additional guidance as to what should be considered as the sale or other disposal of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of the conclusion of the transaction, the location of the Issuer, or other similar criteria. There is no assurance therefore that as a result sales or disposal proceeds received by the Non-Resident Bondholders-Individuals will not become taxable in Russia.

In case the sales or other disposal proceeds are considered as derived from Russian sources, Russian personal income tax will apply to the gross amount of sales or disposal proceeds (including accrued and paid interest on the Bonds) decreased by the amount of any available duly documented cost deductions (including the original acquisition costs of the Bonds and other documented expenses relating to the acquisition, holding and sale or other disposal of the Bonds) provided that such documentation is duly executed and is available to the person obliged to calculate and withhold Russian personal income tax in relation to this income in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed to be insufficient by the tax authorities or the person remitting the respective income to a Non-Resident Bondholder-Individual (where such person is considered as the tax agent obliging to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

Furthermore, there is also some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds derived by a Non-Resident Bondholder-Individual from Russian sources in connection with the sale or disposal of the Bonds, that is attributable to accrued interest on the Bonds, if any. The tax authorities could argue that the portion of sales or disposal proceeds attributable to interest income, provided that these sales or disposal proceeds are derived from Russian sources, should be subject to Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment), even if the sale or disposal itself results in a loss.

In certain circumstances, if sales and/or disposal proceeds are paid to a Non-Resident Bondholder-Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation or any other person located in Russia (including a foreign company with a permanent establishment or any registered presence in Russia or by an individual entrepreneur located in Russia), carrying out operations for the benefit of the Non-Resident Bondholder-Individual under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30 percent (or such other tax rate as may be effective at the time of payment) will be withheld at source by that person considered as the tax agent.

If the Bonds are sold by a Non-Resident Bondholder-Individual to other legal entities, organizations or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Bondholder-Individual will then be required to file a personal income tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition and other expenses relating to the purchase, holding and sale or other disposal of the Bonds, confirmed by the supporting documentation. The applicable personal income tax must then be paid by the Non-Resident Bondholder-Individual on the basis of the filed personal income tax return.

Under certain circumstances, gains received and losses incurred by a Non-Resident Bondholder-Individual as a result of the sale or other disposal of the Bonds and other securities occurring within the same tax year may be aggregated for Russian personal income tax purposes, which

could affect the total amount of income of the Non-Resident Bondholder-Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Bondholder-Individual from the sale or other disposal of the Bonds may be affected by changes in the exchange rate between the currency of the acquisition of the Bonds, the currency of the sale or other disposal of the Bonds and rubles.

Further, there is a risk that the Russian tax authorities could seek to expand the logic set out in the Letter of the Russian Ministry of Finance by broadening the concept of the beneficial ownership/factual recipient of income from payments of interest on the loans within the Eurobonds structures to include the matter of sourcing of the portion of the proceeds from the sale and/or disposal of the Bonds attributable to accrued interest on the Bonds. On this basis they could conclude that the sourced portion represents income derived from Russian sources, at least where such income arises as a result of the redemption of the Bonds. There is no assurance under such circumstances that as a result any interest on the Bonds received by the Non-Resident Bondholders-Individuals will not become taxable in Russia.

### **Taxation of Non-Resident Bondholders —Legal Entities**

#### ***Acquisition of the Bonds***

The acquisition of the Bonds by the Non-Resident Bondholders-Legal Entities (whether upon their issue or upon their acquisition in the secondary market) should not trigger any adverse Russian tax implications for the Non-Resident Bondholders-Legal Entities.

#### ***Interest on the Bonds and Repayment of Principal on the Bonds***

Non-Resident Bondholders-Legal Entities should not generally be subject to any Russian taxes in respect of payments of interest and repayment of principal on the Bonds received from the Issuer.

Taxation of interest on the Bonds may however be affected by the tax treatment of interest on the Loan (please see “*Risk Factors - Interest payments on the Loan may become subject to Russian withholding tax*”). In particular, there is a risk that the Russian tax authorities will seek to expand the logic set out in the Letter of the Russian Ministry of Finance by broadening the concept of the beneficial ownership/factual recipient of income from payment of interest by the Russian companies on the loans funded within the Eurobonds structures to include the matter of sourcing of interest on the Bonds. On this basis they could conclude that interest on the Bonds represents income derived from Russian sources. There is no assurance under such circumstances that as a result any interest on the Bonds received by the Non-Resident Bondholders-Legal Entities will not become taxable in Russia.

Under such circumstances, the Bondholders-Legal Entities may try to seek reduction or elimination of the applicable Russian income tax rates under double tax treaties entered into between their countries of tax residence and Russia, where such treaties exist and to the extent they are applicable and could be relied upon by them (please see “*Tax Treaty Relief*”).

#### ***Sale and/or other Disposal of the Bonds***

According to the Russian Tax Code the list of Russian source income includes interest on Russian state and municipal securities as well as interest on debt obligations of Russian entities. Interest on debt obligations of foreign companies (including any portion of the sales or disposal proceeds derived in connection with the disposal of the debt obligations of such non-Russian entities (such as the Bonds)), even if payable from Russian sources, is not included in the list of Russian source income and therefore should not be subject to Russian withholding tax.

### **Tax Treaty Relief**

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing to reduce or eliminate the applicable Russian income taxes imposed on income on the Bonds received by Non-Resident Bondholders from Russian sources. In order to obtain the benefits available under the respective double tax treaty, a Non-Resident Bondholder will have to comply with the certification, information and reporting requirements which are in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

### ***Non-Resident Bondholders—Legal Entities***

Currently, a Non-Resident Bondholder—Legal Entity will need to provide the payer of income, which is considered as a tax agent, a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. The certificate should confirm that the respective Non-Resident Bondholder—Legal Entity is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty) in a particular calendar year during which the income is paid. This certificate should generally be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate will have to be provided to the person paying the income. However, the payer of income in practice may request from a Non-Resident Bondholder—Legal Entity additional documents confirming the entitlement and eligibility of that Non-Resident Bondholder—Legal Entity to the benefits of the relevant double tax treaty in relation to the payable income. There can be no assurance, however, that the advance treaty relief will be available in practice

### ***Non-Resident Bondholders—Individuals***

Under Russian domestic tax legislation, in order to enjoy benefits of an applicable double tax treaty, a Non-Resident Bondholder-Individual will have to provide to the Russian tax authorities a tax residency certificate, issued by the competent authorities of his/her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities of income received and the tax paid outside Russia in relation to income with respect to which the respective double tax treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the applicable double tax treaty. Technically, these requirements may mean that a Non-Resident Bondholder-Individual would not be able to rely on the applicable double tax treaty until he or she has pays the tax in relation to this income in the jurisdiction of his/her tax residency. In practice, individuals may not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief could be provided to the Russian tax authorities and, consequently, the approval from the latter could be obtained, before the receipt of income by a Non-Resident Bondholder-Individual occurs.

Non-Resident Bondholders-Individuals should consult their own tax advisors with respect to possible tax treaty relief and procedures which have to be satisfied in order to obtain a tax relief in regards of Russian personal income tax, which may apply to interest on the Bonds or proceeds received by them from the sale or other disposal of the Bonds.

### **Tax Reclaim**

If Russian withholding tax applicable to income from the disposal of the Bonds from Russian sources by a Non-Resident Bondholder-Legal Entity was withheld at source, despite the provisions of the Russian Tax Code, there is no assurance that a claim for a refund of the Russian income tax that was excessively withheld at source in relation to such income can be successfully filed by this Non-Resident Bondholder—Legal Entity with the Russian tax authorities.

If Russian withholding tax is withheld at source from interest on the Bonds payable to a Non-Resident Bondholder-Legal Entity, despite the provisions of the Russian Tax Code, there is no assurance that a claim for a refund of the Russian income tax that was excessively withheld at source in relation to such interest can be successfully filed by this Non-Resident Bondholder—Legal Entity with the Russian tax authorities. If taxation of interest on the Bonds is affected by the tax treatment of interest on the Loan and, in particular, if under such circumstances Russian withholding tax applicable to interest payable from Russian sources to a Non-Resident Bondholder—Legal Entity was withheld at source, despite the right of such Non-Resident Bondholder—Legal Entity to rely on the benefits of the applicable double tax treaty allowing it not to pay the tax in Russia or allowing to pay the tax at the reduced rate in relation to this income, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by this Non-Resident Bondholder—Legal Entity with the Russian tax authorities within three calendar years following the calendar year in which the tax was withheld.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Bondholder-Individual for whom double tax treaty relief is available was withheld at source despite the right of this Non-Resident Bondholder-Individual to rely on the benefits of the applicable double tax treaty allowing not to pay the tax in Russia or allowing to pay the tax at the reduced rate in relation to this income, a claim for a refund of Russian personal tax which was excessively withheld at



source can be filed with the Russian tax authorities within one year following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains the exhaustive list of documents and information which have to be provided by the foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities, in practice, may require a wide variety of documentation confirming the right of a Non-Resident Bondholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates. In practice, the Russian tax authorities may be more willing to take a more formalistic approach in relation to the approval of the tax refund.

In the light of the above information, obtaining a refund of Russian income taxes that were excessively withheld at source is likely to be a time-consuming process requiring great efforts, yet, in practice, no assurance can be given that such a refund will be granted to Non-Resident Bondholders.

Non-Resident Bondholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain the refund of Russian income taxes which were excessively withheld at source.

### ***Taxation of Payments under the Guarantee***

According to the Deed of Guarantee, payments under the Guarantee will be made by the Guarantor directly to the Trustee. No Russian withholding tax obligations should arise for the Guarantor upon making payments under the Guarantee to the Trustee by virtue of the exemption envisaged by Law 97-FZ.

In particular, the Law 97-FZ provides that Russian companies that make payments in favour of foreign legal entities upon the execution of the guarantee or suretyship should be fully released from the obligation to withhold Russian income tax from such payments provided that the following conditions are all met:

- (1) payments under a guarantee or suretyship relate to the “issued bonds” placed by a foreign entity in order to fund a debt to a Russian entity, where “issued bonds” are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the specified foreign exchanges and/or (b) that have been registered in foreign depository/clearing organizations;

The lists of qualifying foreign exchanges and foreign depository/clearing organizations should be adopted by the Federal Service for Financial Markets and agreed upon by the Russian Ministry of Finance. Before the adoption of the above mentioned lists, any foreign exchanges or foreign depository/clearing organizations should qualify for the purposes of the above exemption. According to the draft of the order of the Federal Service for Financial Markets published on its website, this list includes, inter alia, the London Stock Exchange as well as Euroclear, Clearstream, Luxembourg and DTC. There is however no assurance that this list will be approved in its current form. It therefore remains unclear whether borrowers will be exempted from the obligation to act as tax agents after the lists of foreign stock exchanges and foreign depository/clearing organizations are approved – if, for example, bonds are admitted for trading on a foreign exchange before the list of exchanges is approved and this foreign exchange is not subsequently included in the list.

The connection between the issued bonds and the debt of the Russian entity should be evident and supported with documents, which are set forth in Law 97-FZ.

- (2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the income recipient (i.e. the Trustee) which can be confirmed by a tax residency certificate.

The release from the obligation to withhold Russian income tax described herein should apply to income paid on issued bonds (such as the Bonds) that are placed before 1 January 2014.

Subject to the above, the Guarantor should be released from the withholding tax agent obligations to withhold Russian income tax in respect of the entire amount of the Guarantee payment, including the portion relating to interest on the Bonds, the repayment and/or prepayment of principal of the Bonds as well as any payments relating to the Conversion of the Bonds.

Importantly, Law No. 97-FZ does not provide for the exemption for foreign income recipients from Russian withholding tax; rather, the payor of income is released from the tax agent obligations. Currently, however, there is no requirement and mechanism in the Russian tax legislation for foreign legal entities to self-assess and pay the tax to the Russian tax authorities, in case the tax was not withheld at source; such rules however are set out for non-Russian tax residents which are individuals. At the same time earlier the Russian Ministry of Finance acknowledged in its information letter published on its website that the release of Russian companies from withholding tax agent obligations arising under the Eurobonds structures should effectively mean that no Russian withholding tax should arise, since there is neither a mechanism nor obligation for a non-resident to calculate and pay independently under such circumstances the tax to the Russian budget. At the same time this acknowledgement of the Russian Ministry of Finance has not been anyhow formalized so far. There can therefore be no assurance that requirements will not be introduced in the future or that the Russian tax authorities will not make attempts to collect the tax from the foreign income recipients, including the Trustee.

If, however, the Bondholders as the ultimate beneficiaries of any sums payable under the Guarantee are deemed to be the recipients of income under the Guarantee for Russian tax purposes, the Russian tax treatment of the payments in question could be different. Please see “*Risk Factors - Payments made upon execution of the Guarantee may become subject to Russian withholding tax or Russian personal income tax, as may be applicable*”.

## **CYPRUS**

*The following statements are intended only as a general guide to the main Cypriot tax consequences which will apply to the Bondholders. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of the Bondholders and is based on current Cypriot law and practice which may be subject to change. Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction should seek professional advice immediately.*

### ***Tax residency***

A company which is considered to be a resident for tax purposes in Cyprus is subject to corporate income tax in Cyprus (“**Corporate Income Tax**”) on its worldwide income taking into consideration certain exemptions. A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised from Cyprus.

With respect to the individual Bondholders, an individual is considered to be a tax resident of Cyprus if he or she is physically present in Cyprus for a period or periods exceeding in aggregate more than 183 calendar days in any calendar year.

### **Taxation of Cypriot Tax Resident Bondholders – Individuals and Legal Entities**

#### ***Acquisition of the Bonds***

The acquisition of the Bonds by Cypriot Tax Resident Bondholders, either Individual or Legal Entities (whether upon their issue or upon their acquisition in the secondary market) should not give rise to any adverse Cypriot tax implications.

#### ***Receipt of interest income on the Bonds***

##### ***Cypriot Tax Resident Bondholders – Individuals***

Interest income to be received by the Bondholders which are Cypriot tax resident individuals should be subject to either Personal Income Tax on a “Pay As You Earn Basis” at the rates in the range of 20 per cent. to 35 per cent. (in case arising in the ordinary course of the business or closely connected thereto) or to Defence Tax at a rate of 15 per cent. (in case interest is not arising in the ordinary course of the business or closely connected thereto).

##### ***Cypriot Tax Resident Bondholders – Legal Entities***

Interest income to be accrued by Cypriot tax resident Bondholders which are legal entities on the Bonds should be subject to either 10 per cent. Corporate Income Tax (in case arising in the ordinary course of the business or closely connected thereto) or to Defence Tax at the rate of 15 per cent. (in case interest is not arising in the ordinary course of the business or closely connected thereto).

#### ***Capital gains/losses from the sale of the Bonds***

Any gains/losses to be generated by the Bondholders which are Cypriot tax residents upon the sale of the Bonds should be exempt from Corporate Income Tax or Personal Income Tax, or should not be deductible for Corporate Income Tax or Personal Income Tax purposes in Cyprus, as the case may be. Such income should be outside the scope of Cypriot Capital Gains Tax.

#### ***Conversion of the Bonds***

Any gains or losses to be generated by the Bondholders which are Cypriot tax residents upon the conversion of the Bonds and physical delivery of GDRs should be exempt from Corporate Income Tax or Personal Income Tax, or should not be deductible for Corporate Income Tax or Personal Income Tax purposes, as the case may be. Such income should be outside the scope of Cypriot Capital Gains Tax.

#### ***Redemption of the Bonds***

Gains/losses (if any) to be realized by the Cypriot tax resident Bondholders upon redemption of the Bonds should be subject to the same Cypriot tax treatment as gains/losses from the sale of the Bonds.

### **Taxation of Non-Cypriot Tax Resident Bondholders - Individuals and Legal Entities**

#### ***Acquisition of the Bonds***

The acquisition of the Bonds by Non-Cypriot Tax Resident Bondholders, either Individual or Legal Entities (whether upon their issue or upon their acquisition in the secondary market) should not give rise to any adverse Cypriot tax implications.

#### ***Receipt of interest income on the Bonds***

Interest income of the non-resident Bondholders should not be subject to Corporate Income Tax or Personal Income Tax in Cyprus. This is provided that interest income (considered to arise in the ordinary course of the business or closely connected thereto) is not attributable to the permanent establishment of the Bondholders (legal entities) in Cyprus.

In case the interest income on the Bonds is not generated in the ordinary course of the business or closely connected thereto, such interest income should not be subject to 15 per cent. Defence Tax.

#### ***Capital gains/losses from the sale of the Bonds***

Any gains to be generated by the Bondholders which are non-Cypriot tax residents upon the sale of the Bonds should not be subject either to Corporate Income Tax or Personal Income Tax in Cyprus, as the case may be. Such income should be outside the scope of Cypriot Capital Gains Tax.

#### ***Conversion of the Bonds***

Any gains or losses to be generated by non-resident Bondholders which are Cypriot tax residents upon the conversion of the Bonds should not be subject either to Corporate Income Tax or Personal Income Tax, as the case may be. Such income should be outside the scope of Cypriot Capital Gains Tax.

#### ***Redemption of the Bonds***

Gains/losses (if any) to be realized by the non-resident Bondholders upon redemption of the Bonds should be subject to the same Cypriot tax treatment as gains/losses from the sale of the Bonds.

### **Stamp duty**

Cyprus levies stamp duty on every instrument if:

- (a) it relates to any property situated in Cyprus; or
- (b) it relates to any matter or thing which is performed or done in Cyprus.

There are instruments which are subject to stamp duty in Cyprus at a fixed fee (ranging from three cents to EUR 34.17) and instruments which are subject to stamp duty based on the value of the instrument (0.15 per cent. for the first EUR 170,860.14 and thereafter 0.2 per cent. plus EUR 256.30 for contract sums exceeding EUR 170,860.14. The stamp duty is capped to a maximum of EUR 17,860.01 per agreement/ contract. Moreover, if more than one document/agreement is entered into

which relate to the same matter (whether concurrently or at different time), stamp duty is levied only in respect of the principal/primary document. The remaining (secondary) documents are subject to stamp duty at the fixed amount of EUR 1.71 each.

The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad. If the instruments are executed outside Cyprus, payment of the stamp duty may be deferred until the instruments are first brought into Cyprus, whereupon they shall be deemed, for the purpose of the payment of stamp duty, to have been first executed on the date of their receipt in Cyprus.

### **Value Added Tax (VAT)**

#### *General*

Cypriot VAT is chargeable on any supply of goods or services made within Cyprus, where it is a taxable supply made by a taxable person in the course or in furtherance of his business.

In addition, VAT is imposed on the intra-Community acquisition of goods from another EU Member State by a taxable person into Cyprus, on the reverse charge services received by a taxable person in Cyprus and on the importation of goods from outside the European Union, irrespective of the status of the importer. The standard VAT rate in Cyprus is 17%.

#### *Transactions under the Bonds*

Cypriot VAT Law provides that transactions, including negotiation but not management or safekeeping, with shares, interests in companies or associations, debentures and other securities, but excluding documents establishing title to goods and titles of registration of immovable property are VAT exempt services.

Consequently, payments in consideration for the issue or transfer of the Bonds or in respect of payments of principal or interest under the Bonds, or payments on early redemption under Bonds or conversion of the Bonds should be exempt from Cypriot VAT.

## SUBSCRIPTION AND SALE

These Listing Particulars have been prepared in connection with the listing of the Bonds following their offering and issue. Notwithstanding any other disclosure contained herein, no offers of Bonds are being made in connection with the publication of these Listing Particulars.

Citigroup Global Markets Limited and Deutsche Bank AG, London Branch (the “**Lead Managers**”) have, in a subscription agreement dated 19 September 2012 (the “**Subscription Agreement**”) and made between the Issuer, the Guarantor and the Lead Managers agreed, upon the terms and subject to the conditions contained therein, severally and not jointly nor jointly and severally in the case of Deutsche Bank AG, London Branch, to procure subscribers, failing which to subscribe for, and in the case of Citigroup Global Markets Limited, to purchase the aggregate principal amount of Bonds that are outside the United States in reliance on, and within the meaning of, Regulation S. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Lead Managers for certain expenses incurred in connection with the management of the issue of the Bonds.

Each of the Issuer and the Guarantor have undertaken to the Lead Managers that during the period commencing on the date of the Subscription Agreement and ending 90 days after the Closing Date (both dates inclusive) it will not, and will procure that none of the Guarantor’s subsidiaries will, without the prior written consent of the Lead Managers (i) directly or indirectly, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Shares or GDRs, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of Shares or GDRs or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (a) the issue of the Bonds, (b) any GDRs issued pursuant to the conversion of the Bonds, (c) the issue of GDRs or Shares pursuant to any options, warrants or other rights existing at the date of the Subscription Agreement, (d) the issue of GDRs or Shares pursuant to any employee share schemes existing at the date of the Subscription Agreement, (e) the acquisition of GDRs or Shares pursuant to the Tender Offer, (f) any derivative transactions entered into in connection with the issue of the Bonds or (g) any transaction between the Guarantor and any of its subsidiaries or between such subsidiaries.

### **United Kingdom**

Each Lead Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

### **United States of America**

The Bonds, the Guarantee, the GDRs and the Shares (the “**Securities**”) have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

Each Lead Manager has represented and agreed that it has not offered or sold the Securities constituting part of its allotment within the United States, except in accordance with Rule 903 of Regulation S.

In addition, until 40 days after the commencement of any offering, an offer or sale of Bonds within the United States by any person (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

**The Russian Federation**

Each Lead Manager has further represented, warranted and agreed that the Bonds have not been and will not be offered, transferred or sold as part of their initial distribution or at any time thereafter 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.

## GENERAL INFORMATION

### 1. Listing

Application has been made to the UKLA for the Bonds to be admitted to the Official List. Application has also been made to the London Stock Exchange for the Bonds to be admitted to trading on the Professional Securities Market. It is expected that admission of the Bonds to the Official List and admission to trading of the Bonds on the Professional Securities Market will take place and that dealings in the Bonds will commence at 8 a.m. on 31 December 2012.

The listing of the Bonds on the London Stock Exchange will be expressed in Sterling as a percentage of their principal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in Sterling for delivery on the third business day in London after the date of the transaction.

### 2. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The creation and issue of the Bonds has been authorised by resolutions of the board of directors of the Issuer dated 19 September 2012.

### 3. Clearing

The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Code for the Bonds is 083447516. The International Securities Identification Number for the Bonds is XS0834475161. The address of Euroclear is 1 Boulevard du Roi Albert I, B 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L 1855, Luxembourg.

### 4. Governmental, Legal or Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware), nor have there been such proceedings in the 12 months preceding the date of this document, which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, the Guarantor and/or the Group taken as a whole.

### 5. Financial and Trading Position

There has been no significant change in the financial or trading position of the Group taken as a whole since 30 September 2012, other than the issuance of US\$750.0 million 5.9% bonds due 2022 as set forth in "*Description of the Guarantor – Recent Developments*", and there has been no material adverse change in the prospects of the Group since 31 December 2011.

There has been no significant change in the financial or trading position, or material adverse change in the prospects, of the Issuer since 2 March 2012, its date of incorporation.

### 6. Financial Information

The Annual Financial Statements incorporated by reference in these Listing Particulars, have been audited by ZAO KPMG, independent auditors, 10 Presnenskaya Naberezhnaya Block C Moscow 123317 as stated in their report appearing therein. With respect to the Interim Financial Statements incorporated by reference herein, ZAO KPMG have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included therein, states that they did not audit and they do not express an opinion on that interim financial information.

### 7. Expenses

The total expenses related to the admission to trading of the Bonds are expected to be approximately GBP 2,975.

### 8. Material Contracts

The following contracts directly concerning the issue of the Bonds have been entered into by the Guarantor and the Issuer immediately preceding the publication of these Listing Particulars and are, or may be, material:

- (i) the Trust Deed dated 24 September 2012 between the Issuer and the Trustee, constituting the Bonds and appointing the Trustee to act as trustee and under which such commission in respect of the service of the Trustee as shall be agreed between the Issuer and the Trustee shall be paid;
- (ii) the Subscription Agreement dated 19 September 2012 between the Issuer, the Guarantor and the Managers under which, inter alia, the Issuer agreed to issue the Bonds, the Managers agreed to procure purchasers for the Bonds, and the Issuer and the Guarantor gave certain warranties and indemnities to the Managers; and
- (iii) an Agency Agreement dated 24 September 2012 between the Issuer, the Guarantor, the Trustee, the Registrar and the Principal Paying, Transfer and Conversion Agent setting out, inter alia, the terms of appointment and duties of the Trustee, the Principal Paying, Transfer and Conversion Agent, the Agents and the Registrar and under which such commissions in respect of the services of the agents as shall be agreed between them and the Issuer and the Guarantor are to be paid.

#### **9. Documents on Display**

Copies of the following documents may be inspected during normal business hours at the offices of the Guarantor during the 12 months starting on the date on which these Listing Particulars are made available to the public as required by the prospectus rules made by the FSA:

- (i) the Memorandum of Association and the Articles of Association of the Issuer;
- (ii) the Articles of Association of the Guarantor; and
- (iii) the consolidated audited financial statements of the Guarantor in respect of the two financial years ended 31 December 2011 and 2012 together with the audit reports prepared in connection therewith.

In addition, these Listing Particulars are also available at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

#### **10. Yield**

The yield to maturity of the Bonds is 2.00 per cent. per annum, payable semi-annually in equal instalments in arrear. The yield is calculated as at the issue date of the Bonds and on the basis of the issue price of the Bonds.

#### **11. Rating**

The Bonds have been assigned a preliminary credit rating of BB+ by Standard & Poor's. Standard & Poor's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.



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