IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBS**") IN RELIANCE ON THE EXEMPTION FROM REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") PROVIDED BY RULE 144A OR (2) LOCATED OUTSIDE OF THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**").

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No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply.

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Metalloinvest Finance Limited

(incorporated under the laws of Ireland)

as issuer of

U.S.$750,000,000 6.50 per cent. guaranteed notes due 2016

initially unconditionally and irrevocably guaranteed on a joint and several basis

by

Joint Stock Company Holding Company Metalloinvest,

Joint Stock Company Lebedinsky GOK and

Joint Stock Company Oskol Elektrometallurgical Plant

(each a joint-stock company incorporated under the laws of the Russian Federation)

and to be additionally unconditionally and irrevocably guaranteed pending corporate approvals by

Joint Stock Company Mikhailovsky GOK

(a joint-stock company incorporated under the laws of the Russian Federation)

Issue price of Notes: 100 per cent.

Metalloinvest Finance Limited (the "**Issuer**"), a wholly owned indirect subsidiary of Joint Stock Company Holding Company Metalloinvest (the "**Parent**") is issuing U.S.$750,000,000 aggregate principal amount of 6.50 per cent. guaranteed notes due 2016 (the "**Notes**"). The Notes are initially unconditionally and irrevocably guaranteed (the "**Initial Guarantees**") by the Parent, Joint Stock Company Lebedinsky GOK ("**LGOK**") and Joint Stock Company Oskol Elektrometallurgical Plant ("**OEMK**" and, together with the Parent and LGOK, the "**Initial Guarantors**" and each an "**Initial Guarantor**") under a deed of guarantee between the Initial Guarantors and the Trustee (as defined below) dated on or about the date of the Trust Deed (as defined below) (the "**Deed of Guarantee**"). Joint Stock Company Mikhailovsky GOK ("**MGOK**") is not an Initial Guarantor. Pursuant to the Terms and Conditions of the Notes (the "**Conditions**"), the Parent has undertaken to procure MGOK (the "**Additional Guarantor**" and, together with the Initial Guarantors, the "**Guarantors**") also provide an unconditional and irrevocable guarantee of the Notes (the "**Additional Guarantee**" and, together with the Initial Guarantees, the "**Guarantees**" and each a "**Guarantee**") substantially in the form of the deed of accession to the Deed of Guarantee set out in the Schedule to the Deed of Guarantee no later than 50 days from 21 July 2011 (the "**Issue Date**"). **Failure of MGOK to execute and deliver the Additional Guarantee no later than 50 days from the Issue Date shall entitle holders of the Notes (the "Noteholders") to request that the Issuer redeem the Notes as set out in "Terms and Conditions of the Notes" herein.**

Interest on the Notes will accrue from 21 July 2011 at a rate of 6.50 per cent. per annum of their outstanding principal amount payable semi-annually in arrear on 21 January and 21 July of each year, commencing on 21 January 2012. The Notes will be subject to, and have the benefit of, a trust deed between Deutsche Trustee Company Limited as trustee for the holders of the Notes (the "**Trustee**") and the Issuer to be dated 21 July 2011 (the "**Trust Deed**").

Payments on the Notes will be made free and clear of any withholding taxes imposed by Ireland or the Russian Federation to the extent described in "Terms and Conditions of the Notes" herein. The Notes may be redeemed by the Issuer in whole but not in part at 100 per cent. of their principal amount, plus accrued and unpaid interest, if the Issuer (or if the Guarantees are called, a Guarantor) has or will become obliged to pay certain additional amounts and otherwise as described under "Terms and Conditions of the Notes—Redemption and Purchase—Redemption for Tax Reasons". The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time, but on one occasion only, on giving not less than 30 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in the Terms and Conditions of the Notes) plus any accrued and unpaid interest and additional amounts (if any) to (but excluding) the date of redemption. See "Terms and Conditions of the Notes—Make Whole". The Notes may be redeemed at the option of the Noteholders at 100 per cent. of their principal amount, plus accrued and unpaid interest and additional amounts (if any) to the redemption date, upon the occurrence of a Change of Control Put Event (as defined in "Terms and Conditions of the Notes" herein). Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 21 July 2016.

An investment in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 26.

The Notes are expected to be rated "Ba3" by Moody's Investors Service Ltd. ("**Moody's**") and "BB-" by Fitch Ratings Limited ("**Fitch**" and, together with Moody's, the "**Rating Agencies**"). A 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. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the european union and registered under the regulation (EC) no 1060/2009 of the european parliament and of the council of 16 september 2009 on credit rating agencies (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the european union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Moody's and Fitch are established and operating in the European Community prior to 7 June 2010 and have submitted applications for registration in accordance with the CRA Regulation and, as at the date of this Prospectus, such applications for registration have not been refused.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("**FSMA**") (in such capacity, the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**Stock Exchange**") for the Notes to be admitted to trading on the Stock Exchange's Regulated Market (the "**Market**"). Reference in this prospectus (the "**Prospectus**") to the Notes being "**listed**" (and all related references) shall mean that the Notes have been admitted to the Official List and admitted to trading on the Market. The Market is a regulated market for the purpose of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Notes and the Guarantees (the "**Securities**") have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States. The Securities are being offered and sold by BNP PARIBAS, Credit Suisse Securities (Europe) Limited, ING Bank N.V., London Branch, J.P. Morgan Securities Ltd., Merrill Lynch International, Société Générale, TD Investments Limited, The Royal Bank of Scotland plc and VTB Capital plc (the "**Joint Lead Managers**") outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and within the United States to "**qualified institutional buyers**" ("**QIBs**") in reliance on Rule 144A under the Securities Act ("**Rule 144A**"). Prospective purchasers are hereby notified that sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of the Prospectus. Any representation to the contrary is a criminal offence in the United States. For a description of these and certain further restrictions, see "Subscription and Sale" and "Transfer Restrictions".

The Securities that are being offered and sold in accordance with Regulation S (the "**Regulation S Notes**") will initially be represented by beneficial interests in an unrestricted global note (the "**Regulation S Global Note**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about the Issue Date. Securities which are offered and sold in reliance on Rule 144A will initially be represented by beneficial interests in one or more restricted global notes (the "**Rule 144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Issue Date with a custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their account holders. Definitive notes in respect of beneficial interests in the Regulation S Global Note and the Rule 144A Global Note ("**Regulation S Definitive Notes**" and "**Rule 144A Definitive Notes**", respectively, and together, the "**Definitive Notes**") will not be issued except as described under "Summary of Provisions relating to the Notes while in Global Form".

Joint Lead Managers and Joint Bookrunners

BNP PARIBAS	**BofA Merrill Lynch**	**Credit Suisse**
ING	**J.P. Morgan**	**Société Générale Corporate & Investment Banking**
The Royal Bank of Scotland	**Troika Dialog**	**VTB Capital**

The date of this Prospectus is 19 July 2011.

The Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, the Guarantors, the Parent and its consolidated subsidiaries taken as a whole (the "**Group**") and the Securities, which, according to the particular nature of the Issuer, the Guarantors, the Group and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantors and the Group, and the rights attaching to the Securities. The Issuer and the Guarantors each accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Issuer and the Guarantors (each of which has taken all reasonable care to ensure that such is the case), the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in the Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Parent, the Issuer, the Guarantors, the Trustee or the Joint Lead Managers. The delivery of the Prospectus at any time does not imply that the information contained herein is correct as at any time subsequent to its date.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Joint Lead Managers or the Trustee as to the accuracy or completeness of the information contained in the Prospectus or any other information supplied in connection with the Securities. Each person receiving the Prospectus acknowledges that such person has not relied on any of the Joint Lead Managers or the Trustee in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer, the Guarantors and the Group and the merits and risks involved in investing in the Securities. To the fullest extent permitted by law, none of the Joint Lead Managers accepts any responsibility whatsoever for the contents of this prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer, the Guarantors, the Group or the Securities. Each of the Joint Lead Managers accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of the Prospectus or any such statement.

For a more complete description of restrictions on offers, sales and transfers, see "Subscription and Sale" and "Transfer Restrictions".

The Prospectus does not constitute an offer to sell or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Guarantors, any Joint Lead Manager or any other person, any of the Securities in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of the Prospectus and the offer and sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession the Prospectus or any of the Securities are delivered are required to inform themselves about and to observe any such restrictions. Each prospective purchaser of the Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes the Prospectus. In addition, each prospective purchaser must obtain any consent, approval or permission required under the regulations in force in any jurisdiction to which it is subject or in which it purchases, offers or sells the Securities. The Issuer and the Guarantors shall not have any responsibility for obtaining such consent, approval or permission. In particular there are restrictions on the distribution of the Prospectus and the offer or sale of Securities in the United States and the United Kingdom. For a description of these further restrictions on offers and sales of the Securities and distribution of the Prospectus, see "Subscription and Sale".

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank of Ireland. The Issuer is not and will not be regulated by the Central Bank of Ireland as a result of issuing the Notes.

STABILISATION

In connection with the issue of the Notes, Credit Suisse Securities (Europe) Limited (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted in accordance with all applicable laws and rules.

AVAILABLE INFORMATION

Each of the Issuer and the Guarantors have agreed that, so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and the Guarantors will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of any such restricted securities, or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The Prospectus is being furnished by the Issuer and the Guarantors in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of the Securities described herein. The information contained in the Prospectus has been provided by the Issuer, the Guarantors and other sources identified herein. Any reproduction or distribution of the Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Securities offered hereby, is prohibited. Each potential investor in the Securities, by accepting delivery of the Prospectus, agrees to the foregoing.

NOTICE TO U.S. INVESTORS

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SECURITIES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE SECURITIES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND BY THE JOINT LEAD MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A ("QIBs") IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (SEE "SUBSCRIPTION AND SALE"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY RULE 144A NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

THE SECURITIES WILL BE SUBJECT TO CERTAIN RESTRICTIONS ON OFFERS, SALES AND TRANSFERS. SEE "TERMS AND CONDITIONS OF THE NOTES", "TRANSFER RESTRICTIONS" AND "SUBSCRIPTION AND SALE".

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

TO COMPLY WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) ANY SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO RUSSIAN INVESTORS

The Prospectus should not be considered as a public offer or an advertisement of the Notes in the Russian Federation, and is not an offer, or an invitation to make offers, to purchase any Notes in the Russian Federation. Neither Notes, nor the Prospectus nor any other document relating to them have been registered with the Federal Service for the Financial Markets of the Russian Federation.

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ENFORCEABILITY OF JUDGMENTS

The Issuer is a limited liability company incorporated under the laws of Ireland. The Parent is a joint-stock company incorporated in the Russian Federation, and the other Guarantors are incorporated in the Russian Federation. Most of the assets of the Issuer and most of the assets of the Parent and the other Guarantors are located outside the United States and the United Kingdom. In addition, all of the officers and directors of the Issuer, the Parent and the other Guarantors reside outside the United States and the United Kingdom, and a substantial part of the assets of such persons are located outside the United States and the United Kingdom. As a result, it may not be possible for investors and the Trustee to effect service of process within the United Kingdom or the United States upon any of the Issuer, the Parent or the other Guarantors or the officers and directors of the Issuer, the Parent and the other Guarantors or to enforce against any of them court judgments obtained in English or American courts.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised by courts in the Russian Federation only if (a) an international treaty exists between the Russian Federation and the country where the judgment was rendered providing for the recognition of judgments in civil cases and/or (b) a federal law of the Russian Federation providing for the recognition and enforcement of foreign court judgments is adopted and/or (c) on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. No such federal law has been passed, and no such treaty exists, between the Russian Federation, on one hand, and the United States or the United Kingdom, on the other hand.

The Parent is aware of at least two instances in which Russian courts have recognised and enforced a foreign court judgment (including the judgment of an English court). The basis for this was the principle of reciprocity and (in the case of the enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. Nevertheless, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy. Therefore, foreign judgments against Russian companies or Russian assets may not be enforced or their enforcement may require completion of the complicated procedures specified above. In addition, in the absence of established court practice, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English (or U.S.) court judgment on these grounds. Furthermore, Russian courts have limited experience in the enforcement of foreign court judgments (see “Risk Factors—Risks Related to Russia”).

The Notes and the Guarantees will be governed by English law and will provide the option that any dispute between the parties thereto may be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the “**LCIA**”), with the seat of such arbitration being in London, England. The United Kingdom and the Russian Federation are parties to the New York Convention on the Enforcement and Recognition of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, an arbitral award from an arbitral tribunal in London, England should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention, subject to qualifications set out therein and in compliance with applicable Russian legislation. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors;
- the inability of Russian courts to enforce such awards; and
- corruption.

The Arbitrazh Procedural Code of the Russian Federation (the “**Arbitrazh Procedural Code**”) establishes the procedure for Russian courts to refuse to recognise and enforce such arbitral award. The Arbitrazh Procedural

Code and other Russian procedural legislation could change; therefore, *inter alia*, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may be met with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Under current Russian law, state duty may be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the Notes or the Guarantees in any court of the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Certain Terminology

The Issuer and the Group

In the Prospectus, unless the context otherwise requires, references to the "**Issuer**" are to Metalloinvest Finance Limited, references to the "**Parent**" are to Joint Stock Company Holding Company Metalloinvest and references to the "**Group**" are to the Parent and its consolidated subsidiaries.

Currencies

In the Prospectus, all references to:

- "**RUB**", and "**rouble**" are to the currency of the Russian Federation;
- "**U.S. dollar**" and "**U.S.$**" are to the currency of the United States of America; and
- "**EUR**", "**euro**", and "**€**" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community.

Certain Jurisdictions

In the Prospectus, all references to:

- "**CIS**" are to the Commonwealth of Independent States and its member states as at the date of the Prospectus: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- "**EU**" are to the European Union, and "**EU Member State**" means any member state of the European Union;
- "**Russia**" are to the Russian Federation, and "**Region**" means any of the constituent territories of the Russian Federation;
- "**U.K.**" and "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland; and
- "**U.S.**" and "**United States**" are to the United States of America.

Other Defined Terms

In the Prospectus:

- "**BMC LLC**" means LLC Baikal Mining Company;
- "**CAGR**" means Compound Annual Growth Rate;
- "**CBR**" means the Central Bank of the Russian Federation;
- "**FMC**" means Ferrous Metal Company Limited;
- "**Government**" means the federal government of the Russian Federation;
- "**Guarantors**" means each of Parent, LGOK, OEMK and MGOK;
- "**Hamriyah Steel**" means Hamriyah Steel FZC;
- "**Initial Guarantors**" means each of the Parent, LGOK and OEMK;
- "**Joint Lead Manager**" and "**Joint Lead Bookrunner**" means each of BNP Paribas, Credit Suisse, ING, J.P. Morgan, Merrill Lynch International, Société Générale Corporate & Investment Banking, The Royal Bank of Scotland, Troika Dialog and VTB Capital;
- "**LGOK**" means Joint Stock Company Lebedinsky GOK;
- "**LIBOR**" means the London interbank offered rate and is the rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market;
- "**MGOK**" means Joint Stock Company Mikhailovsky GOK;

- "**MIL LLC**" means LLC MetallinvestLeasing;
- "**MIT AG**" means Metalloinvest Trading AG;
- "**MIT LLC**" means LLC Metalloinvesttrans;
- "**Nautilus Minerals**" means Nautilus Minerals Inc.;
- "**Norilsk Nickel**" means Joint Stock Company MMC Norilsk Nickel;
- "**OEMK**" means Joint Stock Company Oskol Elektrometallurgical Plant;
- "**RAS**" means Russian Accounting Standards;
- "**Rosstat**" means the Federal State Statistics Service in the Russian Federation;
- "**Sladkovsko-Zarechnoe**" means LLC Sladkovsko-Zarechnoe;
- "**Tax Code**" means the Tax Code of the Russian Federation;
- "**Ural Scrap Company**" means Ural Scrap Company Group;
- "**Ural Steel**" means Joint Stock Company Ural Steel; and
- "**VAT**" means value-added tax.

PRESENTATION OF CERTAIN FINANCIAL INFORMATION

Consolidated Financial Information of the Group

The Prospectus includes the Group's audited consolidated financial statements as at and for the year ended 31 December 2010 (the "**2010 Financial Statements**") and as at and for the year ended 31 December 2009 (the "**2009 Financial Statements**", and together with the 2010 Financial Statements, the "**Annual Consolidated Financial Statements**") and the Group's unaudited condensed consolidated interim financial information as at and for the three months ended 31 March 2011 (the "**Interim Financial Statements**" and together with the Annual Consolidated Financial Statements, the "**Consolidated Financial Statements**").

The Annual Consolidated Financial Statements included in the Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board ("**IASB**"), and are presented in roubles. The Guarantors do not prepare any stand-alone financial information in accordance with IFRS. The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**").

Segments

The chief operating decision maker ("**CODM**") reviews management accounting information, which is based on the financial information prepared in accordance with RAS or IFRS and adjusted to meet internal reporting requirements. Such financial information differs in certain respects from the information presented in accordance with the International Financial Reporting Standards.

Also, as described in Note 6 to the 2010 Financial Statements, in 2010 the Group's CODM changed the approach to identifying operating segments. Accordingly, starting in 2010, the previous leasing segment is no longer separately reviewed by the Board of Directors to make operating and strategic decisions and not assessed as a separate reportable segment. Operating results and performance measures of the leasing segment are assessed as a part of the respective segments to which the leasing services are provided. Additionally, the Group's scrap processing activity is assessed as a part of the Steel Segment operations and is included in the Steel Segment. For the purposes of the 2010 Financial Statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations, prior period disclosures have been prepared to conform to the 2010 presentation, which differs from the presentation contained in the 2009 Financial Statements.

Adjusted EBITDA and Management EBITDA

Adjusted EBITDA, for any relevant period, represents profit before tax, adjusted for depreciation and amortisation, finance income, finance costs, foreign exchange gains or losses, gains or losses on extinguishment of financial

liabilities, gains or losses on available-for-sale financial assets and certain other non-cash and extraordinary items ("Adjusted **EBITDA**"). Since Adjusted EBITDA is non-IFRS measure, the Group's definition may differ from (and therefore may not be comparable to) similarly titled measures used by other companies.

Management EBITDA is defined as Adjusted EBITDA adjusted to exclude the effect of capitalisation of elements of cost of non-current assets recognized as expenses in profit or loss in accordance with RAS; additional losses on disposals of property, plant and equipment; unrealised profits adjustments; impairments of receivables; employee benefits obligations adjustments; reclassification of waiver fees and other charges from operating expenses to finance costs; annual bonus accruals and other adjustments ("**Management EBITDA**").

Adjusted EBITDA and Management EBITDA are presented because the chief operating decision maker evaluates the performance of the Group's operating segments on the basis thereof.

Adjusted EBITDA and Management EBITDA have limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA and Management EBITDA do not reflect the impact of income tax charges on the Group's operating performance;
- Adjusted EBITDA and Management EBITDA do not reflect the impact of finance costs, which are significant and could further increase if the Group incurs more debt, on the Group's operating performance; and
- Adjusted EBITDA and Management EBITDA do not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's business which are being depreciated and/or amortised will have to be replaced in the future and the depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA and Management EBITDA these measures do not reflect the Group's future cash requirements for these replacements; and
- other companies in the Group's industries may calculate Adjusted EBITDA and Management EBITDA differently or may use these measures for different purposes than the Group does, limiting their usefulness as a comparative measure.

The Group compensates for these limitations by relying primarily on its IFRS operating results and using Adjusted EBITDA and Management EBITDA only supplementally. See the Group's consolidated statements of comprehensive income and consolidated statements of cash flows in the Interim Financial Statements and the Annual Consolidated Financial Statements included in this Prospectus.

Adjusted EBITDA and Management EBITDA are measures of the Group's operating performance that are not required by, or presented in accordance with, IFRS. Adjusted EBITDA and Management EBITDA are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities or as a measure of the Group's liquidity. In particular, Adjusted EBITDA and Management EBITDA should not be considered as measures of discretionary cash available to the Group to invest in the growth of its business.

For a reconciliation of Adjusted EBITDA and Management EBITDA to profit for the period, see "Selected Financial Information".

Net Financial Debt

Net financial debt represents total long term and short term borrowings, less cash and cash equivalents, which includes short term bank deposits (excluding restricted cash). Net financial debt is not a balance sheet measure under IFRS and should not be considered as an alternative to other measures of financial position. The Group's calculation of net financial debt may be different from the calculation used by other companies and therefore comparability may be limited.

The Group uses net financial debt to provide an assessment of its overall indebtedness, because Management believes it is a commonly used measure in the investment analyst community. Net debt allows the Group to show investors the trend in its net financial condition over the periods presented. However, the use of net financial debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that the Group would use all of its cash to reduce its gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net financial debt and its ratio to equity, or leverage, are used to evaluate the Group's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether the Group's financial structure is adequate to achieve its business and financial targets. The Group's management monitors the net financial debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess the Group's liquidity and financial structure relative to such companies. Management also monitors the trends in its net financial debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

For details on the calculation of net financial debt, see "Selected Financial Information".

COST CURVES

This Prospectus contains references to "cost curves".

A cost curve is a graphic representation in which the production volume of a given iron ore or steel product across the relevant industry is arranged on the basis of average unit costs of production from lowest to highest to permit comparisons of the relative cost positions of particular production sites, individual producers or groups of producers within a given country or region. Generally, a producer's position on a cost curve is described in terms of the particular quartile in which the production of a given plant or producer or group of producers appears. The first quartile is the lowest cost and the fourth quartile is the highest.

The cost curves referred to in this Prospectus have been obtained by the Group from independent industry analysts CRU, who have recognised experience in constructing cost curves for the relevant commodities. To construct cost curves, the analyst compiles information from a variety of sources, including reports made available by producers, site visits, personal contacts, trade publications and other analysts' reports. Although producers may thus participate to some extent in the process through which cost curves are constructed, they are typically unwilling to validate cost analyses directly because of commercial sensitivities. Inevitably, assumptions must be made by the analyst with respect to data that the analyst is unable to obtain and judgement must be brought to bear in the case of virtually all data, however obtained. In addition, the time required to produce cost curves means that even the most recent available examples will be unable to take account of recent developments; in some cases, the most recent available cost curve may be based on data that is several years old. Costs data for specific producers may be based on costs incurred by the producers over their respective accounting years; to the extent these differ, the direct comparability of their costs may be limited.

The cost curves referred to in this Prospectus reflect total cash costs constructed on the basis of the following items: direct mining expenses, stripping and mine development, adjustments, third-party smelting, refining and transportation, by-product credits, other royalties and production taxes. Delivery costs reflect estimates for each producer to accepted selling points, based on actual sales. They include estimates for all costs involved in delivery, including freight, insurance, warehousing and financing costs as well as sales commissions. Costs at operations producing more than one product are estimated on a pro rata basis (weighted according to each metal's share of revenue), so treating the metals as co-products. Moreover, all cost curves embody a number of significant assumptions with respect to exchange rates and other variables. In summary, the manner in which cost curves are constructed means that they have a number of significant inherent limitations.

In certain cases, cost curves produced by more than one reputable industry analyst may exist with regard to a specific commodity. The methodologies employed and conclusions reached by such analysts may differ. Moreover, the reliability of any given cost curve may be difficult to assess, as the accuracy of the data, and the reasonableness of the assumptions on which it has been based, usually cannot be tested directly. Particular producers are, however, in a position to validate the accuracy of the presentation with respect to their own costs subject to adjustments to bring their methodology in line with the methods of the others. This can provide a useful indication of the reliability of a cost curve overall and, notwithstanding their shortcomings, independently produced cost curves are widely used in the industries in which the Group operates.

The cost curves to which this Prospectus refers are based on 2010, or, where indicated, 2009 data. The cost curves have been prepared using cost data for the Group's and other producers' operations. While Management have satisfied themselves that the Group's own production costs which were used in the preparation of the cost curves are accurately represented, the Group is not in a position to verify directly the cost data on other producers from which these cost curves were constructed or to update such data.

CONVENIENCE CONVERSION

Solely for the convenience of the reader, certain financial information in this Prospectus for the year ended 31 December 2010 and the three months ended 31 March 2011 have been converted from roubles into U.S. dollars at the foreign currency exchange rate set by the CBR as of 31 March 2011 of RUB 28.43 for U.S.$1.00.

No representation is made that the rouble or US dollar amounts referred to in this Prospectus could have been or could be converted into roubles or US dollars, as the case may be, at any particular exchange rate or at all.

ROUNDING

Certain figures included in the Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

INFORMATION DERIVED FROM THIRD PARTIES

IRON-ORE RESERVES AND RESOURCES

All data relating to this Group's reserves and resources relating to iron ore cited in the Prospectus are calculated by reference to estimates provided by IMC in its report dated 15 September 2010 with respect to each of LGOK and MGOK (the "**IMC Report**"), which were prepared in accordance with Australasian Joint Ore Reserves Committee ("**JORC**") standards. Reserves and resources are quoted as at 1 July 2010. The IMC Report was not prepared for the purposes of the Prospectus and have not been included herein.

MARKET, ECONOMIC AND INDUSTRY DATA

Unless the source is otherwise stated, the market, economic and industry data in the Prospectus constitute the estimates of the members of the Board, using underlying data from independent third parties. The Group has obtained market data and certain industry forecasts on such topics as the Russian iron-ore and steel industries and related subjects from internal surveys, reports and studies, where appropriate, as well as third-party market research, publicly available information and industry publications, including publications and data compiled by:

- *American Appraisal Inc*. American Appraisal Inc. ("**American Appraisal**") is a global valuation and related services firm that provides expertise in tangible and intangible assets. It has more than 900 employees and operates throughout Asia-Pacific, Europe, North and South America.
- *BMI*. Business Monitor International ("**BMI**") is global company that provides analysis, data, forecasts and other products and services designed to help senior executives, analysts and researchers assess and better manage operating risks, and exploit business opportunities across 175 markets.
- *Central Bank of the Russian Federation*. The Central Bank of the Russian Federation (the "**CBR**") is the central bank of the Russian Federation. It is the main regulator of the banking industry and is responsible for the country's monetary policy, including the level of the shortest interbank interest rate.
- *Chermet Corporation*. The Chermet Corporation ("**Chermet**") is a Russian company that provides and publishes information, statistics and analytic surveys relating to producers of ferrous metals.
- *CRU International Ltd*. CRU International Ltd. ("**CRU**") is an independent business analysis and consultancy group focused on the mining, metals, power cables, fertiliser and chemical sectors. Its registered address is 31 Mount Pleasant, London WC1X 0AD.
- *Expert RA Rating Agency*. Expert RA Rating Agency ("**Expert RA**") was founded in 1997 and is the first independent rating agency in Russia. It provides credit ratings of and statistical data about companies in Russia and the CIS.
- *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. Its registered address is Icon Business Centres, Lake View Drive, Sherwood Park, Nottingham NG15 0DT, United Kingdom.
- *Tenova HYL.* Tenova HYL ("**HYL**") is a worldwide supplier of advanced technologies, products, and services for the metal and mining industries.
- *International Iron and Steel Institute.* The International Iron and Steel Institute ("**IISI**") is one of the largest industry associations in the world. IISI's members include more than 190 steel producers (including the world's 20 largest steel companies), national and regional steel industry associations, and steel research institutes. IISI members produce approximately 60 percent of the world's steel.
- *ISSB Limited.* ISSB Limited ("**ISSB**") is UK-based company that maintains a comprehensive database of international trade in steel and steelmaking products.
- *MetalCourier*. Metal Courier ("**MetalCourier**") is an independent provider of market and industry news in CIS and other world regions, as well as statistical and analytical data, including CIS production export-import data and price data.
- *Midrex*. Midrex Technologies, Inc. ("**Midrex**") is an international process engineering and technology company that has been a leading technology supplier for the direct reduction of iron ore for use in steelmaking, ironmaking and foundry applications for more than 40 years.

- *Ministry of Economical Development of Russia*. The Ministry of Economical Development of Russia is the federal executive body responsible for developing state policy and regulating, *inter alia*, business development and foreign economic activity.
- *Organisation Internationale des Constructeurs d'Automobiles.* Organisation Internationale des Constructeurs d'Automobiles ("**OICA**") is a Paris-based federation of automobile manufacturers that collates statistics about worldwide motor vehicle production.
- *RudProm*. RudProm is an agency that collates statistics about iron ore producers in the former Soviet Union.
- *Russian Federal State Statistics Service*. The Russian Federal State Statistics Service is a federal agency dealing with the collection, analysis, and publication of state statistics, including economic, social, and population statistics.
- *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.

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

Where third-party information has been used in this document, the source of this information has been identified.

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

The Parent, the Issuer and the Guarantors have derived substantially all of the information contained in this Prospectus concerning their competitors from publicly available information, such as annual reports, and have accurately reproduced such information and, as far as the Parent, the Issuer and each of the Guarantors 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. The Parent, the Issuer and the Guarantors have relied on the accuracy of this information without independent verification. In addition, some of the information contained in this document has been derived from official data of Russian government agencies and the 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 the Russian Federation in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

EXCHANGE RATE INFORMATION

The functional currency of the Group and the presentation currency for the Consolidated Financial Information included in the Prospectus is the rouble. Part of the Group's revenues and indebtedness, as well as certain capital and operating expenditures, are U.S. dollar- and, to a lesser extent, euro-denominated. As a result, fluctuations in the value of the rouble against the U.S. dollar and the euro, as well as other currencies, may affect the Group's results.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Group's financial statements and other information presented in the Prospectus.

	Roubles per U.S. dollar			
Year Ended 31 December	**High**	**Low**	**Average(1)**	**Period End**
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.72	30.24
2010	31.78	28.93	30.37	30.48

	Roubles per U.S. dollar			
Month Ended	**High**	**Low**	**Average(1)**	**Period End**
31 January 2011	30.63	29.67	30.09	29.67
28 February 2011	29.80	28.94	29.29	28.94
31 March 2011	28.90	28.16	28.43	28.43
30 April 2011	28.52	27.50	28.10	27.50
31 May 2011	28.48	27.26	27.87	28.07
30 June 2011	28.35	27.68	27.98	28.08
July 2011 (through 19 July)	28.38	27.80	28.00	28.18

Note:

(1) The average of the exchange rates on each calendar day for the relevant period.

Solely for the convenience of the reader, and except as otherwise stated, the Prospectus contains translations of certain rouble amounts into U.S. dollars at the conversion rate as published by the CBR on 31 March 2011.

No representation is made that the rouble amounts referred to in the Prospectus could have been or could be converted into U.S. dollars at the above exchange rates or at any other rate.

The official exchange rate quoted by the CBR was RUB 28.18 for U.S.$1.00 on 19 July 2011.

The rouble is generally not convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of roubles into other currencies, but the limited availability of other currencies may inflate their value relative to the rouble. No representation is made that the rouble or U.S. dollar amounts referred to herein could have been or could be converted into roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all.

See "Risk Factors—The Group may incur losses as the result of fluctuations in the foreign currency exchange rates of the rouble, the U.S. dollar or the euro".

FORWARD-LOOKING STATEMENTS

The Prospectus contains forward-looking statements, including statements regarding strategies, business plans, targets, forecasts, projections, possible future results of operations and other statements that are not statements of historical fact. These statements can be identified by the use of forward-looking terminology, including the terms "targets", "believes", "expects", "aims", "intends", "will", "may", "should", "anticipates" or similar expressions. Forward-looking statements are included in sections entitled "Overview of the Group", "Risk Factors", "Capitalisation" "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Industry Overview", "Business" "Regulatory Matters", "Taxation" and other sections of the Prospectus.

By their nature, forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer, the Guarantors or the Group to be materially different from those suggested in the Prospectus. Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies of the Issuer and the Guarantors and the environment in which the Issuer, the Guarantors or the Group will operate in the future, and many of the factors that will determine the actual results, performance and achievements of the Issuer, the Guarantors or the Group are beyond their control. The important factors that could cause the results, performance or achievements of the Issuer, the Guarantors or the Group to differ materially from those discussed in the forward-looking statements include, but are not limited to, those discussed under "Risk Factors".

These forward-looking statements are made only as at the date of the Prospectus. Subject to any obligations under Article 16 of the Prospectus Directive, the Issuer and the Guarantors expressly disclaim any obligation or undertaking to release publicly after listing of the Notes any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of the Issuer or the Guarantors with regard thereto or any change in events, conditions or circumstances on which any statement is based.

OVERVIEW OF THE GROUP

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with the entire Prospectus, including the more detailed information regarding the Group's business and the Consolidated Financial Information and related notes included elsewhere in the Prospectus. Certain statements in this overview include forward-looking statements that also involve risk and uncertainties as described under "*Forward-Looking Statements*".

Overview

The Group is one of the largest iron ore and HBI producers and suppliers globally and the leading regional iron ore producer that extracts and exploits iron ore from the second largest measured iron ore reserve base in the world with approximately 14.9 billion tonnes of proven and probable reserves on a JORC equivalent basis and over 160 years of reserve life (being the ratio of reserves (proven and probable) to mined production as at 1 July 2010). In 2010, according to CRU, the Group was the fifth largest commercial iron ore producer in the world, the largest commercial iron ore producer in Europe and the CIS, the largest supplier of merchant HBI in the world, the largest producer of HBI/DRI in Europe, Russia and the CIS, and the fifth largest steel producer in Russia.

The Group is a global player in the production of beneficiated iron ore products, processing the majority of its primary iron ore concentrate production into value-added products, such as high-grade iron ore concentrate, iron ore pellets and HBI/DRI. In 2010, the Group accounted for the output of 36% of iron ore concentrate and sintering ore, 59% of iron ore pellets and 100% of HBI/DRI in Russia, producing approximately 36.8 million tonnes of sintering ore and concentrate, 22 million tonnes of iron ore pellets and 4.7 million tonnes of HBI/DRI. In the three months ended 31 March 2011, the Group produced approximately 9.9 million tonnes of sintering ore and concentrate, 5.7 million tonnes of iron ore pellets and 1.3 million tonnes of HBI/DRI.

The Group is also a leading regional and domestic producer of niche steel products, accounting in 2010 for approximately 9% of crude steel and steel products produced in Russia. In 2010, the Group produced approximately 6.1 million tonnes of crude steel and 5.4 million tonnes of value-added steel products including pipe billets, square billets and a variety of value-added products, such as hot-rolled steel sheets, heavy plates, strips for large diameter pipes, bridge construction steel, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. In the three months ended 31 March 2011, the Group produced approximately 1.5 million tonnes of crude steel and 1.3 million tonnes of value-added steel products.

The Group is organised into three integrated operating divisions focusing on mining operations, steel production and auxiliary businesses and other assets. The Mining Division comprises LGOK and MGOK, and the Steel Division comprises OEMK, Ural Steel and Ural Scrap Company. In addition to its mining and steel businesses, the Group owns several other auxiliary businesses and other assets that provide services and raw materials to the Mining and Steel Divisions. These include, in particular, trading, transportation, logistics and leasing services, as well as a steel rolling mill in the UAE. In addition to its principal operating divisions, the Group has a centralised sales and marketing function that coordinates the operating divisions' monitoring of markets, production strategy and external sales, enabling the Group to identify and exploit market synergies and improve operational efficiencies.

The Group's main production facilities at LGOK, MGOK and OEMK are well-positioned in the European part of Russia with ready access to an established infrastructure network and key domestic, regional and international markets, including Russia, CIS, Eastern Europe, the Middle East and Asia. Ural Steel is located in the Ural region of Russia in close proximity to Russian pipe producers. With its significant global, regional and domestic market positions throughout the entire mining production chain, and a leading position in the regional and domestic production of niche steel products, the Group has a wide portfolio of products and sells to customers in various industry sectors in both the domestic and export markets.

For the year ended 31 December 2010, the Group generated RUB 219,668 million in sales and RUB 78,595 million in Management EBITDA, of which the Mining Division generated RUB 60,382 million and the Steel Division generated RUB 14,205 million. For the three months ended 31 March 2011, the Group generated RUB 70,740 million in sales and RUB 26,923 million in Management EBITDA, of which the Mining Division generated RUB 21,555 million and the Steel Division generated RUB 4,597 million.

MINING DIVISION

The Group's Mining Division comprises LGOK and MGOK, the two largest iron ore mining and processing facilities (by production volume) in Russia, according to Rudprom. LGOK and MGOK extract and exploit iron ore from the second largest measured iron ore reserve base in the world, with approximately 14.9 billion tonnes of proven and probable reserves as at 1 July 2010 on a JORC equivalent basis and over 160 years of reserve life (as at 1 July 2010). According to CRU, in 2010, the Group was the fifth largest commercial iron ore producer in the world, the largest commercial iron ore producer in Europe and the CIS, the largest supplier of merchant HBI in the world and the largest producer of HBI/DRI in Europe, Russia and the CIS.

The Group is a global-scale producer of beneficiated iron ore products, processing the majority of its primary iron ore concentrate production into value-added products, such as high-grade iron ore concentrate, iron ore pellets and HBI/DRI. In 2010, according to Rudprom, the Group accounted for the output of 36% of iron ore concentrate and sintering ore, 59% of iron ore pellets and 100% of HBI/DRI in Russia, producing approximately 36.8 million tonnes of sintering ore and concentrate, 22 million tonnes of iron ore pellets and 4.7 million tonnes of HBI/DRI. In the three months ended 31 March 2011, the Group produced approximately 9.9 million tonnes of sintering ore and concentrate, 5.7 million tonnes of iron ore pellets and 1.3 million tonnes of HBI/DRI.

LGOK is Russia's largest iron ore production facility (on the basis of production volume), according to Rudprom, with an output of approximately 19.8 million tonnes of iron ore concentrate and 8.8 million tonnes of iron ore pellets and a 20% share of annual output of sintering ore and concentrate in Russia in 2010. LGOK has significant iron ore reserves of approximately 4.2 billion tonnes on a JORC equivalent basis. LGOK is the only Russian producer of high value-added HBI, a direct substitute for ferrous scrap materials, which does not contain impurities such as nonferrous metals. Management is considering substantial expansion of HBI production at LGOK to meet growing demand in the CIS, Europe, Asia and the Middle East, and expects the Group to remain a global leader in HBI production after the expansion is complete. See "Business—Mining Division—Mining Division Modernisation and Investment Programme".

MGOK is Russia's second largest iron ore production facility (on the basis of production volume), according to Rudprom, with an output of approximately 15.3 million tonnes of concentrate and 9.7 million tonnes of iron ore pellets in 2010. MGOK operates in a single open pit mine with reserves totalling approximately 10.7 billion tonnes on a JORC equivalent basis (including oxidised quartzites). MGOK produced approximately 17.0 million tonnes of sintering ore and concentrate in 2010, or approximately 17% of the annual output of sintering ore and concentrate in Russia in 2010, according to Rudprom.

STEEL DIVISION

The Steel Division comprises OEMK, Ural Steel and Ural Scrap Company and is a leading regional and domestic producer of niche steel products, accounting for approximately 9% of crude steel and steel products produced in Russia in 2010. OEMK and Ural Steel together produce over 2,000 grades of steel, and in 2010 produced approximately 6.1 million tonnes of crude steel and 5.4 million tonnes of value-added steel products, including pipe billets, square billets and a variety of value-added products, such as hot-rolled steel sheets, heavy plates, strips for large diameter pipes, bridge construction steel, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. In the first three months of 2011, the Group produced approximately 1.5 million tonnes of crude steel and 1.3 million tonnes of value-added steel products. The Group is the fifth largest steel producer in Russia by volume, according to Chermet.

In 2010, OEMK was Russia's seventh largest steel production facility in terms of steel and finished product output, according to Chermet, and is a leading producer of pipe billets, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. Management believes OEMK, which started production in 1982, is one of the most modern steel mills in Russia, employing MIDREX DRI technology. It is located in close proximity to LGOK, which supplies OEMK with high-grade iron ore concentrate through a 26 kilometre slurry pipeline. In 2010, OEMK produced 3.3 million tonnes of high-quality crude steel.

In 2010, Ural Steel was Russia's eighth largest steel production facility in terms of steel and finished product output, according to Chermet, and is a leading producer of strips for large-diameter pipes, pipe billets, bridge construction steel and heavy plates. Ural Steel also produces square billets, heavy sections, extruded profiles, pig iron, coke and coke by-products. In 2010, Ural Steel produced 2.8 million tonnes of crude steel.

In 2010, Ural Scrap Company had a 10% market share of the delivery of ferrous scrap in Russia by volume, according to MetalCourier. In 2010, Ural Scrap Company's volume of processing and deliveries of ferrous scrap amounted to 2.1 million tonnes.

STRENGTHS

Management believes that the Group benefits from a number of key strengths that should enable it to capitalise further on its leading position in the iron ore industry in the future. These strengths include:

- The Group operates in the iron ore and HBI/DRI industry with highly attractive fundamentals.
- The Group is a top tier global iron ore producer with one of the two largest reserve bases in the world.
- The Group is positioned for significant growth through its focus on the high growth pellet and HBI/DRI markets.
- The Group has a diversified customer base, focused on the emerging markets.
- The Group operates with one of the lowest production cost bases globally.
- The Group has demonstrated strong financial performance and a prudent balance sheet position.
- The Group has an established management team with a proven track record of delivering growth.

STRATEGY

The Group's strategy is to consolidate and improve its position as a leading global commercial iron ore producer with a focus on further commercialising its reserve base and expanding its production of value-added iron ore and niche steel products. The focus is to ensure a development programme that is structured to strike a balance between profitability and future growth opportunities as detailed below:

- Focus on development projects which further enhance the Group's strong global position in iron ore and HBI/DRI.
- Continue to develop and exploit the Group's existing reserve base and expand logistical capacity to strengthen its position in emerging markets.
- Continued development of new technologies to maintain cost efficient operations.
- Maximising profitability of the Group's steel operations.
- Further expand the Group's global mining activities with a focus on iron ore.

RISK FACTORS

An investment in the Notes involves a high degree of risk, including but not limited to the following:

Risks Related to the Mining and Steel Industries and the Group's Business

- The Group's business is dependent on the global economic environment.
- The Group's financial performance is dependent on the cyclical nature of the global iron ore and steel industries.
- The Russian and global iron ore mining and steel industries are highly competitive, and the Group may not be able to compete successfully.
- Estimates of the Group's mining reserves and resources are subject to uncertainties and estimates of its resources are speculative.
- Any change in the prices or supply of raw materials and other costs of production could cause the Group's financial results to vary.
- The Group obtains significant amounts of its electricity and natural gas supply from government-controlled companies that are currently the subject of a liberalisation programme, which could result in increased prices or supply interruptions.
- The Group's mining and steel 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 may experience equipment failure or other unanticipated events, which may result in significant interruptions in manufacturing processes, production curtailment and shutdowns.

- The violation of health and safety regulations and the occurrence of accidents and injuries could disrupt operations and increase operating costs.
- The processing of iron ore into iron ore pellets and HBI/DRI is costly and increased customer demand for these higher grade iron ore products would increase the Group's expenses, particularly its energy costs.
- Disruption in rail transport and increased rail costs, in Russia or China, could significantly hinder the Group's operations and product distribution.
- The Group will require a significant amount of cash to fund its capital investment 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.
- The Group has grown rapidly in recent years and intends to pursue opportunities to grow its operations through further acquisitions, but there can be no assurance that the Group will be able to successfully integrate such acquired companies, identify suitable acquisition targets or acquire them on satisfactory terms.
- The Mining Division's customer base is heavily dependent on a few large industrial groups and their suppliers.
- The Group could fail to obtain or renew necessary licences or fail to comply with the terms of its licences.
- The Group's business could be adversely affected by product risks related to the implementation of the European regulation concerning the Registration, Evaluation and Authorisation of Chemicals.
- The Group may incur losses as the result of fluctuations in the foreign currency exchange rates of the rouble, the U.S. dollar or the euro.
- 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.
- The reduction or elimination of favourable trade barriers in the Group's principle domestic markets may increase competition, which could adversely affect both the demand for and the prices of its products in those markets.
- The Group is required to obtain governmental permits to expand operations or commence new mining operations. The costs and delays associated with such approvals could have a material adverse effect on its results of operations.
- The Group's existing arrangements with its trade unions may not be renewed on terms favourable to the Group, and the Group's operations could be adversely affected by strikes and lockouts.
- The business areas in which the Group operates entail significant environmental liability risks, for which the Group could be subject to fines, penalties and injunctive proceedings.
- 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 mining and steel operations.
- Additional or stricter environmental rules and regulation, both domestic and international, including substantial decommissioning and reclamation costs related to its mining operations, may significantly increase the Group's cost of compliance.
- The Group has not independently verified information in the Prospectus regarding the mining and steel industries, nor has it independently verified official data from Russian government agencies.
- The Group's competitive position and future prospects are heavily dependent on its senior management's experience and expertise.
- A small group of shareholders holds a significant portion of the Parent's outstanding shares and their interests could conflict with those of the holders of the Notes.
- The Group has engaged, and Management expects it to continue to engage, in related party transactions.
- The Group has breached certain covenants of its debt financing arrangements in the past, and while currently in compliance, any future breach could lead to events of default and acceleration of the Group's debt.

Risks Related to Russia

- Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Group's business, as well as cause the price of the Notes to suffer.
- Political and social conflicts or instability could create an uncertain operating environment.
- Political and governmental instability could adversely affect the value of investments in Russia, including the Notes.
- Arbitrary, selective state action, in particular by the tax authorities, could have a material adverse effect on the Group's business.
- Economic instability in Russia could adversely affect the Group's business.
- Sustained periods of high inflation could adversely affect the Group's business.
- The Group may experience reduced liquidity and difficulty in obtaining future financing.
- The Group may be affected by the relative underdevelopment of the physical infrastructure in Russia.
- 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.
- Social instability, including that caused by worsening economic conditions and turmoil in the Russian financial markets, could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect the Group's ability to conduct its business effectively.
- Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.
- 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 Russian Federal Antimonopoly Service ("**FAS**") with respect to its acquisitions of companies that are incorporated and operating in Russia or assets located in Russia.
- Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its Russian subsidiaries.
- 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 its shareholders from obtaining effective redress in a court proceeding.
- In the event that the title to any 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.
- Russia's property law is subject to uncertainty and contradiction and title to some of the Group's mineral properties or production facilities may be challenged.
- The recently introduced Russian corporate governance code has not yet proven effective at ensuring strong corporate governance practices in Russia and the Group, being a joint stock company incorporated in Russia, is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other EU Member States or the United States.

Risks Related to Taxation

- Russian tax law and practice are not fully developed and are subject to frequent changes.
- Vaguely drafted Russian transfer pricing rules may have a negative effect on the operations of the Group.

Risks Related to the Notes

- The Issuer's ability to fulfil its obligations under the Notes is dependent on the Group.
- Payments under the Guarantees may be subject to Russian withholding tax.

- Tax might be withheld on dispositions of the Notes in Russia, reducing their value.
- Noteholders may be subject to withholding tax in EU Member States that have opted for a withholding system under the EU Savings Directive.
- If there is a change of control, Noteholders may require the Issuer to redeem the Notes.
- If the Additional Guarantor fails to execute and deliver the Additional Guarantee no later than 50 days from the Issue Date, the Noteholders may require the Issuer to redeem the Notes.
- The Notes may be redeemed at the option of the Issuer in certain circumstances.
- Noteholders may face difficulties in enforcing their rights under the Guarantees or the Notes.
- The Notes may not be a suitable investment for all investors.
- The debt agreements that the Group has entered into include covenants that may restrict the Group from making certain business decisions and/or carrying out its business strategy.
- The Group has a significant amount of indebtedness, which could have an adverse impact on the Group's ability to fulfil its obligations under the Notes and the Guarantees.
- There is no active trading market for the Notes.
- The market price of the Notes may be volatile.
- The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited.
- The Notes are subject to restrictions on transfer.
- The Notes are subject to risks relating to exchange rate and exchange controls.
- Changes to the credit ratings of the Group or the Notes may adversely affect the value of the Notes.
- Legal investment considerations may restrict certain investments.
- The Issuer may issue further Notes with identical terms that may have a negative impact on the market value of the original Notes.
- The Issuer is subject to risks relating to the location of its centre of main interest ("**COMI**"), the appointment of examiners and the claims of preferred creditors under Irish law.

The foregoing overview of risk factors is not exhaustive. For further information on the risks affecting the Group, see "Risk Factors".

SUMMARY FINANCIAL INFORMATION

The following is a summary of the Group's financial information for the periods indicated. The financial information as at 31 March 2011 and for the three months ended 31 March 2011 and 2010 was extracted from the Interim Financial Statements. The financial information as at and for the years ended 31 December 2010 and 2009 was extracted from the 2010 Financial Statements. The financial information as at and for the year ended 31 December 2008 was extracted from the 2009 Financial Statements, with the exception of segment information as described in "Presentation of Financial and Other Information". The information below should be read together with the Consolidated Financial Statements included elsewhere in the Prospectus, "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Financial information presented below in U.S. dollars is shown for convenience only at the closing foreign currency exchange rate set by the CBR on 31 March 2011 of RUB 28.43 = U.S.$1.00. No representation is made that the rouble or U.S. dollar amounts referred to herein could have been or could be converted into roubles or U.S. dollars, as the case may be, at any particular rate or at all.

Summary Consolidated Statement of Comprehensive Income Data

	Year ended 31 December				Three months ended 31 March		
	2008	**2009**	**2010**	**2010**	**2010**	**2011**	**2011**
		(RUB millions)		*(U.S.$ millions)*	*(RUB millions)*		*(U.S.$ millions)*
Sales	229,947	150,372	219,668	7,727	44,406	70,740	2,488
Cost of sales	(123,737)	(93,751)	(110,386)	(3,883)	(27,154)	(32,574)	(1,146)
Gross profit	**106,210**	**56,621**	**109,282**	**3,844**	**17,252**	**38,166**	**1,342**
Distribution expenses	(17,269)	(32,402)	(33,060)	(1,163)	(6,815)	(11,493)	(404)
General and administrative expenses	(9,455)	(8,729)	(10,846)	(381)	(2,305)	(2,878)	(101)
Excess of fair value of net assets acquired over the cost of acquisition	17	—	—	—	—	—	—
Fair value loss on financial liability	(16,691)	—	—	—	—	—	—
Gain on initial recognition of derivative financial instruments	—	—	—	—	—	2,324	82
Impairment losses	(21,351)	—	—	—	—	—	
Other operating (expenses)/income—net	1,936	339	(2,710)	(96)	(515)	(802)	(28)
Operating profit	**43,397**	**15,829**	**62,666**	**2,204**	**7,617**	**25,317**	**891**
Finance income	1,109	2,367	880	31	346	91	3
Finance costs	(11,004)	(14,632)	(14,767)	(519)	(3,559)	(2,489)	(88)
Foreign exchange gain/(loss) from borrowings	(10,824)	(520)	216	8	2,678	947	33
Gain on extinguishment of financial liability	—	12,765	—	—	—	—	—
Share of net profit/(loss) of associates	(210)	(158)	(221)	(8)	(27)	5	0
Profit before income tax	**22,468**	**15,651**	**48,774**	**1,716**	**7,055**	**23,871**	**839**
Income tax charge	(14,224)	(1,735)	(12,340)	(434)	(2,131)	(5,212)	(183)
Profit for the period	**8,244**	**13,916**	**36,434**	**1,282**	**4,924**	**18,659**	**656**
Currency translation differences	(4,411)	(661)	(202)	(7)	719	1,612	57
Fair value gain/(loss) on available-for-sale assets	(689)	1,263	—	—	—	—	—
Actuarial gain/(loss)	464	305	(521)	(18)	(967)	—	—
Gain on available-for sale assets transferred to the statement of comprehensive income	(5,944)	(1,010)	—	—	—	—	—
Other comprehensive income	**(10,580)**	**(103)**	**(723)**	**(25)**	**(248)**	**1,612**	**57**
Total comprehensive income for the period	**(2,336)**	**13,813**	**35,711**	**1,257**	**4,676**	**20,271**	**713**
Attributable to:							
Owners of the Parent	(2,837)	13,752	35,362	1,245	4,647	20,268	713
Non-controlling interests	501	61	349	12	29	3	0

Summary Consolidated Statement of Financial Position Data

	As at 31 December				As at 31 March	
	2008	**2009**	**2010**	**2010**	**2011**	**2011**
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*	*(U.S.$ millions)*
Cash and cash equivalents, net of restricted cash	4,901	12,327	4,633	163	10,659	375
Total assets	271,097	257,561	249,883	8,789	261,624	9,202
Total borrowings (long-term and short-term)	177,926	164,491	126,377	4,445	118,847	4,180
Total liabilities	237,640	209,557	172,678	6,074	164,716	5,794
Total equity	33,457	48,004	77,205	2,716	96,908	3,409

Summary Consolidated Cash Flows Data

	Year ended 31 December				Three months ended 31 March		
	2008	**2009**	**2010**	**2010**	**2010**	**2011**	**2011**
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*		*(U.S.$ millions)*
Net cash from operating activities	58,980	19,389	47,631	1,675	5,824	18,818	662
Net cash from/(used in) investing activities	(68,928)	7,450	(9,853)	(347)	(1,614)	(7,180)	(253)
Net cash from/(used in) financing activities	5,621	(18,671)	(47,823)	(1,682)	(7,451)	(5,253)	(185)
Net increase/(decrease) in cash and cash equivalents	(4,034)	8,287	(10,005)	(352)	(3,376)	6,026	212
Cash and cash equivalents at the beginning of the period, net of restricted cash	10,385	6,351	14,638	515	14,638	4,633	163
Cash and cash equivalents at the end of the period, net of restricted cash	6,351(1)	14,638(2)	4,633(3)	163	11,262(4)	10,659(5)	375
Included in cash and cash equivalents per the statement of financial position	4,901	12,327	4,633	163	8,951	10,659	375
Included in the assets of the disposal group	1,450	2,311	—	—	2,311	—	—

(1) Amount includes RUB 1,450 million in cash and cash equivalents included in the assets of the disposal group, net of restricted cash of RUB 487 million as at 31 December 2008.

(2) Amount includes RUB 2,311 million in cash and cash equivalents included in the assets of the disposal group, net of restricted cash of RUB 176 million as at 31 December 2009.

(3) Net of restricted cash of RUB 0 million as at 31 December 2010.

(4) Net of restricted cash of RUB 19 million as at 31 March 2010.

(5) Net of restricted cash of RUB 7 million as at 31 March 2011.

Adjusted EBITDA and Management EBITDA

The Prospectus includes certain measures that are non-IFRS measures. See "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Adjusted EBITDA and Management EBITDA".

	Year ended 31 December				Three months ended 31 March		
	2008	2009	2010	2010	2010	2011	2011
		(RUB millions, except %)		*(U.S.$ millions, except %)*	*(RUB millions, except %)*		*(U.S.$ millions, except %)*
Adjusted EBITDA[(1)]	88,460	26,575	74,498	2,620	10,807	26,524	933
Adjusted EBITDA margin[(3)]	38.5%	17.7%	33.9%	33.9%	24.3%	37.5%	37.5%
Management EBITDA[(2)]	88,586	26,612	78,595	2,765	11,537	26,923	947
Management EBITDA margin[(3)]	38.5%	17.7%	35.8%	35.8%	26.0%	38.1%	38.1%

	As at 31 December				As at 31 March	
	2008	2009	2010	2010	2011	2011
		(RUB millions)		*(U.S.$ millions)*	*(RUB millions)*	*(U.S.$ millions)*
Net financial debt[(4)]	173,025	152,164	121,744	4,282	108,188	3,805

(1) Adjusted EBITDA, for any relevant period, represents operating profit before tax, depreciation and amortisation, finance income, finance costs, foreign exchange gains or losses, gains on extinguishment of financial liabilities, gains on available-for-sale financial assets and certain other non-cash and extraordinary items ("**Adjusted EBITDA**"). Since Adjusted EBITDA is a non-IFRS measure, the Group's definition may differ from (and therefore may not be comparable to) similarly titled measures used by other companies. See "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Adjusted EBITDA and Management EBITDA".

(2) Management EBITDA is defined as Adjusted EBITDA adjusted to exclude the effect of capitalisation of elements of cost of non-current assets recognized as expenses in profit or loss in accordance with RAS; additional losses on disposals of property, plant and equipment; unrealised profits adjustments; impairments of receivables; employee benefits obligations adjustments; reclassification of waiver fees and other charges from operating expenses to finance costs; annual bonus accruals and other adjustments ("**Management EBITDA**").

Adjusted EBITDA and Management EBITDA are presented because the chief operating decision maker evaluates the performance of the Group's operating segments on the basis thereof, and Management believes they are frequently used by securities analysts, investors and other parties in the evaluation of companies in the Group's industry.

Reconciliation of Adjusted EBITDA and Management EBITDA to profit before tax for the years ended 31 December 2008, 2009 and 2010, and for the three-month periods ended 31 March 2010 and 2011, is as follows:

	Year ended 31 December				Three months ended 31 March		
	2008	2009	2010	2010	2010	2011	2011
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*		*(U.S.$ millions)*
Profit before tax	22,468	15,651	48,774	1,716	7,055	23,871	839
Adjustments for:							
Depreciation and amortisation	12,167	12,519	11,649	409	2,997	3,166	111
Finance income	(1,109)	(2,366)	(880)	(31)	(346)	(91)	(3)
Finance costs	11,004	14,632	14,767	519	3,559	2,489	88
Foreign exchange gain/(loss)	10,216	(269)	(33)	(1)	(2,485)	(582)	(20)
Fair value loss on financial liability	16,691	—	—	—	—	—	—
Gain on extinguishment of financial liability	—	(12,765)	—	—	—	—	—
Gain on initial recognition of derivative financial instruments	—	—	—	—	—	(2,324)	(82)
Impairment losses	21,351	—	—	—	—	—	—
Net gain on available-for-sale financials assets	(5,944)	(985)	—	—	—	—	—
Impairment of prepayment for an investment	1,406	—	—	—	—	—	—
Share of net profit/(loss) of associates	210	158	221	8	27	(5)	0
Adjusted EBITDA	**88,460**	**26,575**	**74,498**	**2,620**	**10,807**	**26,524**	**933**
Adjustments to reach Management EBITDA:							
Capitalisation of elements of cost of non-current assets recognized as expenses in profit or loss in accordance with RAS	(931)	(513)	(1,449)	(51)	(91)	(166)	(6)
Additional loss on disposal of property, plant and equipment	625	488	275	10	25	14	0
Unrealised profits adjustment	1,207	(633)	2,928	103	199	1,052	37
Additional reverse of provision for impairment of receivables/(additional provision for impairment of receivables)	531	576	(126)	(4)	68	34	1
Employee benefits obligations adjustment	(113)	679	1,339	47	420	(31)	(1)
Reclassification of waiver fees and other charges from operating expenses to finance costs	(161)	(325)	(240)	(8)	—	—	—
Annual bonus accrual	—	—	1,082	38	—	(1,082)	(38)
Other adjustments	(1,032)	(235)	288	10	109	578	21
Management EBITDA	**88,586**	**26,612**	**78,595**	**2,765**	**11,537**	**26,923**	**947**

(3) Adjusted EBITDA margin and Management EBITDA margin are calculated as Adjusted EBITDA divided by sales and Management EBITDA divided by sales, respectively.

(4) Net financial debt represents total long-term and short-term loans and borrowings, less cash and cash equivalents, which includes short term bank deposits (excluding restricted cash). Net financial debt is not a standard IFRS measure and should not be considered as an alternative to other measures of financial position. The Group's calculation of net financial debt may be different from the calculation used by other companies and therefore comparability may be limited.

The Group uses net financial debt to provide an assessment of its overall indebtedness, because Management believes it is a commonly used measure in the investment analyst community. Net debt allows the Group to show investors the trend in its net financial condition over the periods presented. However, the use of net financial debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that the Group would use all of its cash to reduce its gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net financial debt and its ratio to equity, or leverage, are used to evaluate the Group's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether the Group's financial structure is adequate to achieve its business and financial targets. The Group's management monitors the net financial debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess the Group's liquidity and financial structure relative to such companies. Management also monitors the trends in its net financial debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

Net financial debt has been calculated as at 31 December 2008, 2009 and 2010, and as at 31 March 2011, as follows:

	As at 31 December				As at 31 March	
	2008	2009	2010	2010	2011	2011
	(RUB millions)			(U.S.$ millions)	(RUB millions)	(U.S.$ millions)
Long-term borrowings	30,875	101,243	85,726	3,015	74,062	2,605
Short-term borrowings	147,051	63,248	40,651	1,430	44,785	1,575
Cash and cash equivalents	(4,901)	(12,327)	(4,633)	(163)	(10,659)	(375)
Net financial debt	**173,025**	**152,164**	**121,744**	**4,282**	**108,188**	**3,805**

OVERVIEW OF THE OFFERING

The following is an overview of the terms of the Securities. This overview is derived from, and should be read in conjunction with, the full text of the Conditions, the Guarantees and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.

Notes being offered	U.S.$750,000,000 6.50 per cent. guaranteed notes due 2016.
Issuer	Metalloinvest Finance Limited.
Initial Guarantors	Joint Stock Company Holding Company Metalloinvest. Joint Stock Company Lebedinsky GOK. Joint Stock Company Oskol Elektrometallurgical Plant.
Additional Guarantor	The Parent has undertaken in the Conditions to procure Joint Stock Company Mikhailovsky GOK to provide an unconditional and irrevocable guarantee of the Notes no later than 50 days after the Issue Date. If the Additional Guarantor fails to execute and deliver the Additional Guarantee to the Trustee no later than 50 days from the Issue Date, the Noteholders may, at their option, require the Issuer to redeem the Notes at a price per Note equal to 101 per cent. of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption.
Joint Lead Managers	BNP Paribas, Credit Suisse Securities (Europe) Limited, ING Bank N.V., London Branch, J.P. Morgan Securities Ltd., Merrill Lynch International, Société Générale, TD Investments Limited, The Royal Bank of Scotland plc and VTB Capital plc.
Issue price	100 per cent.
Maturity date	21 July 2016.
Interest	The Notes will bear interest at the rate of 6.50 per cent. per annum from and including 21 July 2011.
Interest payment dates	Interest on the Notes will be payable semi annually in arrear on 21 January and 21 July of each year.
Ranking of the Notes and Guarantees	The Notes constitute direct, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Each Guarantee constitutes direct, unsubordinated and unsecured obligations of the relevant Guarantor. Each of the Issuer and the Guarantors shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank in right of payment at least *pari passu* with the claims of all their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.
Use of proceeds	It is anticipated that the net proceeds from the issue and sale of the Notes will be approximately U.S.$743.2 million to be used to repay existing indebtedness.
Further issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to be consolidated and form a single series with the outstanding Notes. Any such other securities

	shall be constituted by a deed supplemental to the Trust Deed and will benefit from guarantees substantially in the form of the Deed of Guarantee given in respect of these Notes. See "Terms and Conditions of the Notes—Further Issues".
Additional amounts	In the event that withholding taxes are required to be withheld or deducted from payments on any of the Notes or pursuant to the Guarantees, as the case may be, the Issuer or (as the case may be) the relevant Guarantor will, subject to certain exceptions described in the Terms and Conditions of the Notes, pay such additional amounts as will result, after deduction or withholding of such taxes, in the receipt by Noteholders of such amounts which would have been received by them if no such withholding or deduction had been required. See "Terms and Conditions of the Notes—Taxation—Payment without Withholding".
Optional redemption for tax reasons	Subject to the Terms and Conditions of the Notes and as further described in such Terms and Conditions, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees are called, a Guarantor) has or will become obliged to pay certain additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction (as defined in the Terms and Conditions of the Notes), or any change in the published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of this Prospectus and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it.
Optional redemption upon a change of control	The Notes may be redeemed early at the option of the Noteholders, at 100 per cent. of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to the date fixed for such early redemption, following the occurrence of a "Change of Control Put Event" as described under "Terms and Conditions of the Notes—Redemption upon a change of control".
Redemption at the Option of the Noteholders on the failure to procure any Additional Guarantee	If the Additional Guarantor fails to execute and deliver the Additional Guarantee to the Trustee no later than 50 days from the Issue Date, the Noteholders may, at their option, require the Issuer to redeem the Notes at a price per Note equal to 101 per cent. of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption. See "Terms and Conditions of the Notes—Redemption at the Option of the Noteholders on the failure to procure the Additional Guarantee".
Make-Whole call option	The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time, but one occasion only, on giving not less than 30 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in the Terms and Conditions of the Notes) plus any accrued and unpaid interest and additional amounts (if any) to (but excluding) the date of redemption. See "Terms and Conditions of the Notes—Make Whole".

Form and denomination	The Notes will be in registered form, without interest coupons attached, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be issued in the form of the Regulation S Global Note and the Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC. Ownership interests in the Global Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.
Listing and Trading	Application has been made to the Stock Exchange for the Notes to be admitted to the Official List and to trading on the Market.
Events of Default and certain covenants	The terms and conditions of the Notes contain events of default and covenants (including a cross acceleration provision and a negative pledge) as described further in “Terms and Conditions of the Notes—Events of Default” and “Terms and Conditions of the Notes—Covenants”. In addition, the Notes contain a non-petition covenant relating to the Issuer. For more information, see “Terms and Conditions of the Notes”.
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent and a Transfer Agent	Deutsche Bank AG, London Branch.
Regulation S Registrar	Deutsche Bank Luxembourg S.A.
Rule 144A Registrar, U.S. Paying Agent and a Transfer Agent	Deutsche Bank Trust Company Americas.
Governing law	The Notes, the Guarantees and the Trust Deed and any non-contractual obligations arising out of or in connection therewith shall be governed by and construed in accordance with English law.
Risk factors	Prospective purchasers of the Notes should consider carefully all of the information set forth in the Prospectus and, in particular, the information set forth under “Risk Factors” below before making an investment in the Notes.
Selling restrictions	The Notes are subject to selling restrictions in the United States, the United Kingdom, Ireland and the Russian Federation. See “Subscription and Sale”.
Security codes	Regulation S ISIN: XS0650962185 Regulation S Common Code: 065096218 Regulation S CFI Code: DBZXFR Rule 144A ISIN: US59125QAA67 Rule 144A Common Code: 065098032 Rule 144A CUSIP: 59125Q AA6
Expected Rating of the Notes	Ba3 Moody’s, BB- Fitch A 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. As at the date of this Prospectus, each of Moody’s and Fitch are established and operating in the European Union and have submitted applications for registration in accordance with the CRA Regulation and such application has not been refused.

RISK FACTORS

Any investment in the Notes involves a high degree of risk. Prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment decision with respect to the Notes. If any of the following risks actually occurs, they could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects and the market value of the Notes may be adversely affected.

The risks discussed below are those that the Group believes are material, but these risks and uncertainties may not be the only risks that the Issuer, the Guarantors and the Group face. Additional risks that are not known to the Issuer, the Guarantors or the Group at this time, or that are currently believed to be immaterial, could also have a material adverse effect on the Issuer's, the Guarantors' and/or the Group's business, financial condition, results of operations, future prospects and the value of the Notes. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.

Words and expressions defined in the sections headed "Terms and Conditions of the Notes" shall have the same meanings in this section.

RISKS RELATED TO THE MINING AND STEEL INDUSTRIES AND THE GROUP'S BUSINESS

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

Following a number of years of strong growth, global economic conditions started to rapidly deteriorate during the third quarter of 2008 as the major financial markets became increasingly unstable. Most major developed economies moved into recession by the end of 2008. This deterioration in global economic activity continued in 2009, leading to a substantial contraction in global industrial production. This contraction in industrial activity had a significant impact on both pricing and demand for iron ore and steel products. A combination of reduced prices and lower quantities of sales had a significant impact on the Group's financial results, including a significant decrease in the utilisation rate of the Group's production facilities, a significant decline in revenues for the Group during 2009 and the recognition of RUB 21.4 billion in impairment losses in 2008. In addition, the strengthening of the U.S. dollar against the rouble in the second half of 2008 and the first three months of 2009 resulted in foreign exchange losses, due to the fact that a large portion of the Group's borrowings are denominated in U.S. dollars.

While global economic conditions have improved since the end of 2009, there is no guarantee that a global recovery will continue. Uncertainty created by the possibility of a second deterioration of the financial markets could make it more difficult for the Group to fund its capital and liquidity requirements. If global economic conditions do deteriorate, the resulting contraction in demand for the Group's products and the tightening of the credit markets could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's financial performance is dependent on the cyclical nature of the global iron ore and steel industries.

The Group's business and financial performance are highly dependent on the iron ore and steel market prices. 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. Sale prices and volumes in the worldwide iron ore market depend predominantly on the prevailing and expected level of demand for iron ore, mainly from steel manufacturers, and the world steel industry, which is itself cyclical. A number of factors beyond the Group's control, the most significant of these being the prevailing level of worldwide demand for steel products, influence the steel industry and therefore demand for iron ore and steel products and the parameters for the price which the Group may demand for its iron ore and steel products. Historically, changes in worldwide demand for steel and iron ore have had a greater impact on demand for HBI/DRI and pellets than other iron ore products due to their higher cost. Additional factors which may cause the price of iron ore to fluctuate over time and are beyond the Group's control include global supply and demand; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculation activities; and global or regional political and economic events, including the performance of European and Asian economies. The recent global economic downturn

resulted in a significant decline in demand for steel and iron ore products. Although prices have risen significantly in the past two years in response to the gradual global recovery, there is no guarantee that this recovery will continue. If the market price of iron ore falls and remains below variable production costs of any of the Group's mining operations for a prolonged period, losses may be sustained and, under certain circumstances, there may be a curtailment or suspension of some or all of the Group's mining activities. The Group would also have to assess the economic impact of any sustained lower iron ore prices on recoverability and, therefore, the cut-off grade and level of the Group's iron ore reserves and resources. As a result, the Group might be forced to cease future projects or refurbishments it had planned. Future prolonged reductions or declines in prices or sales volumes for iron ore or prices for steel products could have a material adverse effect on the Group's business, financial condition and results of operations.

Certain significant steel-consuming industry sectors, such as the automotive and construction industries, are sensitive to changes in general economic conditions, particularly in the Group's key target markets of Russia, the European Union and China. As a result, as economic conditions deteriorate, the demand for iron ore and steel products in these industry sectors may decrease disproportionately. For example, during the global economic downturn, customers in these markets significantly reduced orders for iron ore and steel products. While a gradual recovery in these markets has led to increased demand, particularly in China, significant decreases in the demand for iron ore products and steel products in any industry sector in which the Group generates substantial portions of its revenues could have a material adverse effect on the Group's business, financial condition and results of operations.

Historically iron ore prices were set on an annual basis through negotiations between the three major iron ore producers and the major steel customers. These prices set a benchmark for the rest of the industry, which collectively had little pricing power. Recently, however, quarterly and spot pricing have become more prevalent, which has introduced additional volatility into the iron ore pricing environment. This volatility was demonstrated in the period between 2006 and the present, in which prices rose strongly from 2006 to 2008, collapsed during the global financial crisis, and have recently strongly recovered. Accelerating volatility makes planning more difficult, which could lead to mistimed production levels or misallocated capital expenditure for future products and refurbishments, the occurrence of which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Russian and global iron ore mining and steel industries are highly competitive, and the Group may not be able to compete successfully.

The markets for iron ore, beneficiated iron ore products, steel and steel products are highly competitive. The Group competes with a number of large mining and steel companies, including international companies, some of which have total assets and financial resources substantially greater than those of the Group, and in some cases use more technologically advanced steel production facilities. Some of these competitors may use their substantial resources to enter into purchase agreements with the Group's customers, which could result in a loss of market share for the Group. These competitors may also acquire additional exploration rights over iron ore deposits, further develop iron ore pellet production facilities, expand production of HBI/DRI or engage in pricing or other financial or operational practices that will increase competitive pressure on the Group. A number of the Group's competitors are also undertaking modernisation and expansion plans, which could result in increased production efficiency or enable them to develop new products. Competition from foreign iron ore pellet producers, or foreign direct investment in the Group's domestic competitors, may also result in losses of market share for the Group and could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's competitors include steel producers and producers of substitute materials, such as scrap and HBI/DRI, particularly in the automotive, construction and machinery industries, as well as in the tubes and pipes industries, where competitive pressure is especially intense. The Group's competitors include major Russian, CIS and international steel producers, some of which 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. In particular, recent consolidation in the steel industry worldwide has led to the creation of several large global steel producers, such as the global market leader ArcelorMittal. The highly competitive nature of the industry combined with excess production capacity for some steel products have exerted, and may in the future continue to exert, downward pressure on the prices of certain products of the Group. There can be no assurance that the Group will be able to compete successfully in the future.

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

Estimates of the Group's mining reserves and resources are subject to uncertainties and estimates of its resources are speculative.

Estimates of the Group's iron ore reserves and resources prepared by the Group, reviewed by IMC and summarised in the Prospectus were based on interpretations of geological data obtained from sampling techniques and projected rates of production. See "Information Derived From Third Parties—Iron-Ore Reserves and Resources". Sampling techniques and projections are inherently uncertain and variances in reserves and resources estimates under different methodologies are difficult to determine and evaluate with accuracy. Reserves estimates are imprecise and depend on assumptions about operating costs, commodity prices and geological analyses based partly on statistical inferences drawn from drilling and sampling analyses, any of which may prove unreliable. Valid estimates may change significantly when new information becomes available. In addition, reserves and resources estimates do not account for the effect of market prices of iron ore on the economic feasibility of mining any particular deposit.

The estimated reserves and resources described in the Prospectus should not be interpreted as an assurance of the commercial viability, potential or profitability of any future operations. Moreover, there can be no assurance that the Group's production levels at any of its mines will ever reach previous historical production levels. Production of mineral resources can be affected by such factors as applicable regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions.

If the Group's actual production of iron ore 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 to its steel operations or to third parties at an economically feasible price or at all, which would have a material adverse effect on the Group's business, financial condition and results of operations.

Any change in the prices or supply of raw materials and other costs of production could cause the Group's financial results to vary.

The Group requires substantial amounts of raw materials in the extraction and beneficiation of iron ore and the steel-production process, in particular iron ore. Although the Mining Division provides a sufficient supply of iron ore for the Steel Division, the availability of other necessary raw materials such as scrap, coal and other means of producing energy 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, transport costs, price fluctuations, higher labour costs and the effect of inflation on other operating costs. In addition, the Group's operations require substantial amounts of other raw materials, including various types of fuel, gas, alloys, refractories, limestone and oxygen, the price and availability of which are also subject to market conditions. Increases in raw materials costs may outpace increases in the average selling prices for steel products and, as a result, diminish the Group's ability to appropriately react through normal price changes. If prices for steel products fall, the Group may be exposed to reductions in its profit margins resulting from delays in the reduction of raw material prices.

Increases in the production costs of the Mining and Steel Divisions could have a major impact on the Group's profitability. The Group's main production expenses are materials and components, energy costs and labour costs, accounting for 50.5%, 18.4% and 15.3%, respectively, of the Group's cost of sales in 2010. Increases in the costs of the Mining and Steel Divisions' mining, processing and steelmaking operations could occur as a result of unforeseen events beyond the Group's control, including international and local economic and political events, and increases in energy and raw materials prices. These events could result in changes in the Group's profitability.

The Group may not be able to adjust its prices to recover the costs of increases in the prices of necessary raw materials and other costs of production. Any change in the prices or supply of raw materials could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group obtains significant amounts of its electricity and natural gas supply from government-controlled companies that are currently the subject of a liberalisation programme, which could result in increased prices or supply interruptions.

The Group purchases significant amounts of natural gas from subsidiaries of OAO Gazprom ("**Gazprom**"). Gazprom is a government-controlled company 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, the average final price of gas for the Group is set at U.S.$110-117 per 1,000 m3.

In addition the Group purchases significant amounts of electricity from entities formerly consolidated under RAO UES, the state-owned electricity provider. A restructuring plan was completed in July 2008 in which RAO UES, the former state power company, merged into JSC Federal Grid Company of Unified Energy System ("**FGC UES**"). This measure was the final step in the plan for the Russian power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system. It is uncertain what effect this liberalisation plan will have on the electricity market.

Any interruption in the supply of energy or a substantial increase in its cost could adversely affect the Group's future profitability to the extent it is unable to pass on higher costs to its customers. As a result of the above-mentioned factors, the Group's Management expects that prices of energy, including natural gas, are likely to increase above current levels over time. While the Group is taking steps to increase its energy efficiency and reduce consumption to help minimise the impact of recent gas and other energy price increases on its production costs, if it is unable to do so or if the prices increase significantly, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's mining and steel 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.

Hazards associated with the Group's open-pit mining operations include collapses of the open-pit walls, 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. There are also hazards associated with the Group's iron ore beneficiation and steel production, such as fires or accidents related to its blast furnaces or other industrial accidents. Although the Group has customary insurance for companies in this sector, these hazards or accidents could result in material damage to, or the destruction of, mineral properties or production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, delays in mining, delays in shipment, reduced sales, increased costs, losses associated with remedying the situation, other monetary losses and possible legal liability. Such occurrences could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group's mining and manufacturing processes depend on critical pieces of mining and steel-making equipment. This equipment may, on occasion, be out of service as a result of a malfunction or defect. In addition, plant equipment at some of the Group's operations is relatively old and requires regular maintenance, which can cause utilisation of equipment to be lower than it otherwise would be. At the same time, the Group's facilities are subject to the risk of damage due to unanticipated events, such as fires, explosions or adverse weather conditions, although the Group has customary insurance for companies in this sector including business interruption insurance. 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. Loss of revenues or customers or large unexpected capital expenditures would have a material adverse effect on the Group's business, financial condition and results of operations.

The violation of health and safety regulations and the occurrence of accidents and injuries could disrupt operations and increase operating costs.

The Group's mining and steel production operations are inherently dangerous and are subject to comprehensive health and safety regulations. The Group may incur significant expenditures in relation to these health and safety regulations and there can be no assurance that these regulations will not become more onerous in the future. If the health and safety authorities require the Group to shut down all or part of any of its mines or plants or to implement costly compliance measures, whether pursuant to existing or new health and safety laws and regulations, or due to more stringent enforcement of existing laws and regulations, such measures could result in significant losses of revenue or require significant expenditures to remedy the situation. Additionally, the Group's mining and steel production operations may be exposed to various accidents and emergencies beyond the Group's control. Violation of health and safety regulations and the occurrence of accidents and injuries could have an adverse impact on the Group's business, financial condition and results of operations.

The processing of iron ore into iron ore pellets and HBI/DRI is costly and increased customer demand for these higher grade iron ore products would increase the Group's expenses, particularly its energy costs.

Steel plants are designed to use iron ore feedstock having a specific percentage of iron content and other characteristics, such as silica, in their blast furnaces. The iron content of iron ore deposits varies widely from "rich" ore, which may have an iron content of 45% or more, to "lean" ore with an iron content of less than 45%. The Group has produced HBI/DRI with an enriched iron content of approximately 90% and pellets with an enriched iron content of approximately 66% using iron ore extracted from its mines with a lower iron content ranging from 34% to 52%. The enrichment of iron ore resulting in higher iron content is an energy-intensive process and the use of "lean" ore by the Group means that resulting energy costs form a larger proportion of its production costs as compared to producers mining a larger proportion of "rich" ore deposits. As a result, any increase in the price of gas or electricity in Russia could affect the Group disproportionately as compared to producers mining a larger proportion of "rich" ore deposits, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

Disruption in rail transport and increased rail costs, in Russia or China, could significantly hinder the Group's operations and product distribution.

The Group's subsidiary Metalloinvesttrans ("**MIT LLC**") is the owner of its own railcars, and it also leases and sub-leases additional railcars to deliver iron and steel products for Group companies and third parties. As a freight rail operator, MIT is in many ways dependant on the infrastructure of the Russian railway system, including locomotive purposes, maintenance, operating information and other services. The Russian railway system and the other assets owned and operated by OAO Russian Railways ("**Russian Railways**"), largely date back to Soviet times and have not been adequately maintained. As a result, due to the age and insufficient funding and maintenance of a substantial portion of the Russian Railways network and attendant infrastructure, the Group is subject to the risk of disruption, the limited capacity of border stations and load shedding, which can lead to a reduction in shipping. A reduction in shipping may also be caused by a deficit of railcars in Russia, a high wear level of the carriages as well as traffic accidents.

In addition, the Federal Tariff Service sets rail tariffs and may further increase these tariffs, as it has done in the past. Such increases in railway tariffs may result in significant increases in the Group's transportation costs. Both the structural reform of the Russian Railways and the cost of upgrading its rolling stock and other facilities could further contribute to increased tariffs. In addition, the increasing volume of the Group's products that are shipped to China has resulted in an increase in the distance over which the Group's products must be transported by rail, increasing the Group's transportation costs due to the longer distances involved and to increased tariffs. A continuing shift away from the Group's traditional European markets and towards the Asian markets as a result of change in demand could result in increased tariffs. 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 and results of operations.

The Group will require a significant amount of cash to fund its capital investment 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.

Mining and steel producing are capital-intensive businesses. In particular, the Group is currently undertaking an extensive investment programme to modernise and develop its existing mining and steel production facilities,

which will require significant capital expenditures, including in respect of plant equipment which is relatively old and requires replacement. Total capital expenditure was RUB 12.4 billion for 2010 and is anticipated to be RUB 14.3 billion for 2011, of which RUB 5.1 billion has been used as of 31 March 2011. Capital expenditure plans are subject to change depending, among other things, on the development of market conditions and the cost and availability of funds. For more information on the Group's modernisation activities, see "Business—Mining Division—Modernisation and Investment Programme" and "Business—Steel Division—Steel Division Modernisation and Investment Programme". The Group plans to rely on cash generated from its operations and, to a lesser extent, external financing to provide the capital needed for its investment 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. In addition, capital improvement programmes are subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion, cost overruns, failure to obtain required permits and consents and defects in design or construction, which may require additional cash investment.

The Group's plans for future iron ore production and processing involve improving efficiency and reducing operating costs as part of its business improvement programme, upgrading its current plants and processes (such as its concentrating and pelletising facilities) and developing new mining resources. The Group is also considering accelerating the commercialisation of the Group's extensive undeveloped ore deposits as part of its strategy. A failure or delay of the Group's capital investment programme, improvements, upgrades or development could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, in September 2008, the Group won a competitive tender process to develop the Udokan copper deposit for which it paid RUB 15 billion. In accordance with the terms of the licence granted, the Group is required to meet a number of development milestones, culminating in attaining the estimated production capacity by May 2016. The Group is currently undertaking a technical feasibility study. Although any estimates regarding the required capital expenditures for the development of the deposit are not yet final, such amounts would be material to the Group and are subject to the risks described above. The Group is considering a variety of funding options to develop the Udokan deposit, including equity, debt, a combination of equity and debt, project finance and other types of financing. There can be no assurance, however, that external financing will be available on reasonable terms, in which case the Group may spin off the asset or otherwise transfer the licence outside the Group. The inability of the Group to raise finance for, or otherwise successfully manage the development of, the Udokan deposit could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group has grown rapidly in recent years and intends to pursue opportunities to grow its operations through further acquisitions, but there can be no assurance that the Group will be able to successfully integrate such acquired companies, identify suitable acquisition targets or acquire them on satisfactory terms.

In recent years, the Group has pursued a growth strategy, acquiring ownership interests in companies and acquiring other companies, businesses and production assets; in particular, the acquisition and consolidation of MGOK and Ural Steel. The Group intends to consider future acquisitions of assets or companies that will enable it to expand its current operations and increase integration and production synergies. Such acquisitions may include businesses or assets outside the metals and mining sector. To the extent the Group decides to acquire new businesses or assets or enter into new areas of business, the Group may not be able to successfully integrate any new businesses or assets with its current operations.

The success of past, current and future acquisitions will depend on the Group's ability to integrate the acquired assets or companies into its operations despite potential difficulties with integration, such as technological and processing difficulties, 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 disruptions to the Group's 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, possible unenforceability of key contracts, the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration, potential loss of key employees, poor record keeping or internal controls of an acquired business and difficulty in establishing immediate control over cash flows. Managing acquisitions may also divert Management attention from the Group's existing businesses.

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 the past. The value of any business the Group acquires or invests in may be lower than the amount that the Group pays for it if, for example, there is a decline in the position of that business in the market or markets in which it operates or there is a decline in the market generally. The Group also faces significant competition for potential acquisitions. Additionally, 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, as well as 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 any financial liabilities entered into by the target's Management prior to the acquisition.

Furthermore, suitable acquisition targets may have extensive capital expenditure requirements. As described above in "—The Group will require a significant amount of cash to fund its capital investment programme", the Group plans to rely on cash generated from its operations and, to a lesser extent, external financing to provide the capital needed for any capital expenditures required by an acquired business or asset. There can be no assurance, however, that the Group will be able to generate adequate cash from operations or that external financing will, if necessary, be available on reasonable terms. Failure to successfully complete any required capital expenditure may reduce or eliminate the return to the Group that could otherwise arise from such acquisitions.

Any or all of these difficulties could have a material adverse effect on the Group's business, financial condition and results of operations.

The Mining Division's customer base is heavily dependent on a few large industrial groups and their suppliers.

The Mining Division's customer base is characterised by significant concentration, with member companies of 5 key industrial groups among the Group's customers: Evraz group, U.S. Steel, ArcelorMittal, Mechel, Tata Steel and their suppliers, accounting for more than 36% of the Mining Division's total sales during the year ended 31 December 2010. Although the Group has enjoyed good working relations with all of these customers to date, there can be no assurance that the Group will retain such relations in the future, or, if it loses these customers, that they could be easily replaced by other customers on comparable terms and/or volume, if at all. If the Group loses any of these key customers, and is not able to replace their business, this could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the economic sectors in which most of the Group's key customers operate are cyclical and are exposed to downturns like the recent global economic downturn, which may adversely affect key customers' production levels, affecting in turn their demand for raw materials. Should any of the Group's key customers experience decreased production levels for macroeconomic or any other reasons, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group could fail to obtain or renew necessary licences or fail 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 licencees' compliance with licence terms and the Group has no experience of the licence renewal process and its subsoil licences are expiring on 1 January 2016. 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 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, Russian authorities may initiate legal proceedings alleging that the issuance of a licence would violate 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, the applicants who were refused their licence applications 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 its obligations under licensing regulations and the terms of their licences, the Group is 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 its licence activities. In most cases, a licence may be suspended or terminated if the licencee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources 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 Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licences. As a result, while the Group seeks to comply with the terms of its subsoil licences and Management believes that the Group is currently in material compliance with the terms of such licences, there can be no assurance that its licences will not be suspended or terminated. In the event that the licensing authorities in Russia discover a material violation by a subsidiary of the Group, that subsidiary may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have a material adverse effect on the Group's business, financial condition and 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 and results of operations.

The Group's business could be adversely affected by product risks related to the implementation of the European regulation concerning the Registration, Evaluation and Authorisation of Chemicals.

The EC Regulation 1907/2006 on Registration, Evaluation and Authorisation of Chemicals ("**REACH Regulation**") came into force in the European Union on 1 June 2007. It establishes an EU regulatory framework for the registration, evaluation and authorisation of chemical products and is intended to make persons who place chemicals on the EU market responsible for understanding and managing the risks associated with their use.

The REACH Regulation applies to certain products produced by members of the Group to the extent they are imported into the EU, and 'only representatives' have been appointed to relieve importers into the EU of obligations that they would otherwise have under the REACH Regulation in relation to such products. It remains possible that the ongoing and future costs associated with compliance, or non-compliance, with the REACH Regulation may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may incur losses as the result of fluctuations in the foreign currency exchange rates of the rouble, the U.S. dollar or the euro.

The Group is exposed to translational and transactional foreign currency exchange rate risks (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure about Market Risk—Foreign Exchange Risk"). Translational foreign currency exchange rate risks are the result of translating assets and liabilities denominated in the U.S. dollar or euro into roubles 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. In particular, the Group's operating margins are generally adversely affected by an appreciation of the rouble against the U.S. dollar because this will generally cause costs (which are in roubles) to increase relative to revenues (which are significantly represented by U.S. dollars, and to a lesser extent in euros and roubles. While the value of the U.S. dollar against the rouble has remained relatively constant during 2010, there is no guarantee that this trend will continue. As the Group reports its financial results in roubles and exchanges or translates foreign currency into roubles and vice versa, fluctuations in foreign currency exchange rates could have a material adverse effect on the Group's business, financial condition and results of operations.

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.

The Group's products are subject to various trade barriers, such as anti-dumping duties, tariffs and quotas, in its principal export markets, which include the European Union, Asia and the Middle East. These trade barriers

affect the demand for Russian iron ore and steel 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 and results of operations.

The reduction or elimination of favourable trade barriers in the Group's principle domestic markets may increase competition, which could adversely affect both the demand for and the prices of its products in those markets.

The Russian government has enacted various trade barriers, such as import customs duties, specific kinds of duties (including anti-dumping duties) and licensing against imports of foreign steel products. For example, Russia has in place import customs duties with respect to certain steel products imported from outside of Russia. These customs duties generally amount to 5% of the value of the products, but increase to up to 15% for certain high value-added products. These trade barriers provide protection for domestic steel producers in Russia against foreign competition by effectively increasing the prices of imported products compared to domestically available products. However, Russia's potential entry into the WTO in the near to medium-term may involve agreements requiring Russia to reduce or eliminate these trade barriers and there can be no assurance that other similar agreements will not be concluded in the future. The reduction or elimination of trade barriers would increase competition in the Russian steel industry, resulting in lower prices for steel products. Significant decreases in prices for domestic steel products in Russia would have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is required to obtain governmental permits to expand operations or commence new mining operations. The costs and delays associated with such approvals could have a material adverse effect on its results of operations.

The Group is required to seek governmental permits for the expansion of existing operations or for the commencement of new operations where each of its mining operations are located. Obtaining the necessary governmental permits is a complex and time-consuming process often involving public hearings and costly undertakings. The duration and success of permitting efforts are contingent on many factors that are outside the Group's control and the Group has no prior experience in this regard. The governmental approval process may increase costs and cause delays, depending on the nature of the activity to be permitted, which could restrict the Group's ability to proceed with the expansion of its mining licences, and could have a material adverse effect on the Group's business, financial condition and results of operations.

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

As at 31 December 2010, approximately 79% of the Group's employees were represented by trade unions. Although the Group has not experienced any business interruption at any of the Group's businesses as a result of labour disputes in the recent past and it considers its employee relations to be satisfactory, large union representation subjects the Group's operations to the threat of interruptions through strikes, lockouts or delays in renegotiations of labour contracts. The Group's existing collective bargaining agreements with the Group's trade unions are due to expire in December 2011 and 2012. The Group may not be able to renew them on terms favourable to the Group. In this event, the Group's business, financial condition and results of operations could be materially adversely affected.

The business areas in which the Group operates entail significant environmental liability risks, for which the Group could be subject to fines, penalties and injunctive proceedings.

The Group operates many industrial facilities in Russia where hazardous materials and substances that potentially pose significant risks to the environment are present. For instance, mining operations generate large amounts of pollutants and waste, some of which are hazardous to the environment, including benzapiren, sulphur oxide, nitrogen, ammonium, sulphates, nitrites, sludges and other materials. Mining operations involve the storage of overburden and tailings, the use of hazardous materials such as explosives, harmful emission into the air and the production of waste. As a result of these harmful by-products, the Group has in the past incurred liabilities related to environmental damage and remediation, and could incur additional liabilities in the future.

The Group is also potentially subject to fines, penalties and injunctive proceedings due to environmental damage or violations of law or regulations. It is possible that regulatory authorities could decide to conduct an environmental investigation of the Group's facilities, and such investigation could result in the relevant regulatory authorities ordering a halt to certain processes at production facilities which have violated environmental regulations. Such an occurrence could have a material adverse effect on the Group's business, financial condition and results of operations.

The amounts covered by the Group's provisions may prove to be insufficient if the Group incurs liability for environmental claims, due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. It is likely that the assumptions used to determine these provisions will need to be adjusted, mainly due to 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. Furthermore, there can be no assurance that the cost allowances that the Group currently budgets for environmental restoration will be sufficient. Any such liability shortfalls could have a material adverse effect on the Group's business, financial condition and results of operations.

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 mining and steel operations.

The Group operates many industrial facilities in Russia in which hazardous materials and substances that have the potential to present risks to the health or safety of workers and neighbouring populations are in use. Although the Group believes that, with respect to each of its business divisions, it maintains insurance at levels generally in line with the relevant local market standards, should any claims arise involving the Group's businesses or products, it may be held liable for amounts exceeding the coverage ceilings or funding requirements and for uninsured events. Furthermore, any accident, whether it occurs at a production site or during the transport or use of products made by the Group, may result in production delays or claims for compensation, particularly contractual claims, or product liability claims. which could have a material adverse effect on the Group's business, financial condition and results of operations.

Additional or stricter environmental rules and regulation, both domestic and international, including substantial decommissioning and reclamation costs related to its mining operations, may significantly increase the Group's cost of compliance.

The Group's mining operations and steel-making plants involve potential environmental issues, including the generation of pollutants and the storage and disposal of waste 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. As such, the Group may be required to comply not only with local environmental standards but with international regulations as well, which may be more stringent. 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 and results of operations. See "Regulatory Matters".

The Group faces substantial decommissioning and reclamation costs which may be difficult to predict accurately. At each of the Group's mining sites, the Group is required to establish a decommissioning and reclamation plan and the costs of performing such decommissioning and reclamation must be funded by the Group's operations. These costs can be significant and are subject to change. The Group cannot predict what level of decommissioning and reclamation may be required in the future by regulators. If the Group is required to comply with significant additional regulations or if the actual cost of future decommissioning and reclamation is significantly higher than current estimates, this could have an adverse impact on the Group's business, financial condition and results of operations.

The Group has not independently verified information in the Prospectus regarding the mining and steel industries, nor has it independently verified official data from Russian government agencies.

The Group has derived substantially all of the information contained in the Prospectus concerning the mining and steel industries from CRU and publicly available information, and has relied on the accuracy of this information without independent verification (see "Presentation of Financial and Other Information"). In addition, some of

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

The Group's competitive position and future prospects are heavily dependent on its senior management's experience and expertise.

The Group's senior management team has been and, Management 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. While the Group maintains key man or key personnel life insurance covering certain of its senior managers, there can be no assurance that amounts payable under these policies will be adequate to replace the economic cost arising out of the loss of such senior manager's services. Moreover, competition in Russia for personnel 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 attract additional suitably qualified senior management personnel. The loss or diminution in the services of members of the Group's senior management team or an inability to attract and retain additional senior management personnel could have a material adverse effect on the Group's business, financial condition and results of operations.

A small group of shareholders holds a significant portion of the Parent's outstanding shares and their interests could conflict with those of the holders of the Notes.

A significant portion of the Group's outstanding shares are owned by a small group of shareholders, who, as at the date of this Prospectus, owned indirectly all of the Group's shares. See "Principal Shareholders". As a result, the Principal Shareholders have the ability to exercise influence on the Parent, especially with regard to decisions during general meetings of the Parent's shareholders, which are made by a majority of shareholders present or represented at such meetings, and the presence of the shareholders other than Principal Shareholders is low. The interests of the Principal Shareholders could at times conflict with the interests of the holders of the Notes. In such circumstances, the Principal Shareholders acting together could be able to control decisions made, including decisions with respect to the election of the members of Metalloinvest Management Company's Board of Directors, the declaration of dividends and the allocation of profits to reserves.

Further, the Principal Shareholders, acting together or separately, may disagree regarding certain corporate decisions, including acting on potential acquisitions and electing the Board of Directors, causing delay and increased expenses associated with certain actions or foregone opportunities. Any such disagreement could adversely affect the Group's business, financial condition and results of operations.

The Group has engaged, and Management expects it to continue to engage, in related party transactions.

The Group has engaged, and Management expects it to continue to engage, in transactions with certain of its shareholders, including its Principal Shareholders, directors and executive officers and companies controlled by them or in which they or the Group own an interest. See "Material Contracts and Related Party Transactions". 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 at arm's length would be, 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 and results of operations.

The Group has breached certain covenants of its debt financing arrangements in the past, and while currently in compliance, any future breach could lead to events of default and acceleration of the Group's debt.

Under the terms of its debt financing arrangements, the Group is required to comply with a number of covenants, including restrictions on the level of financial indebtedness, financial covenants, prohibition of further capital financing, dividend distribution, obtaining new credit facilities, issuing guarantees and a restriction with regard to pledged assets, the disposal of assets and certain other legal requirements.

In 2008, as a result of the recent economic downturn, the Group was not in compliance with certain covenants of its debt financing arrangements, including covenants which require the Group to maintain its equity at a certain level. Due to the technical breach of these covenants, the lenders of such debt could have held the Group to be in breach of its obligations under its debt financing arrangements, which could have led to events of default and acceleration of the Group's debt.

During 2009, the Group successfully renegotiated the terms of several existing loans and obtained waivers to address all then existing covenant violations. The newly negotiated terms include a grace period for any covenant test breach as well as modifications to the covenant ratios and interest rates. Although the Group is currently in compliance with all of its financial covenants, there is no guarantee that this will be the case in the future. If the Group were to breach any of its financial covenants, the relevant lenders could claim an event of default and demand early repayment of certain of the Group's outstanding indebtedness. Certain of the Group's debt financing arrangements are subject to cross-default provisions which, in the event of non-compliance with covenants on other loans, entitle the lenders of such debt to request early repayment of outstanding indebtedness. In addition, a number of the loans include provisions which provide for an event of default in the case of illegal activities, regulatory changes or third party actions that are not entirely under the control of the Group. Any default or cross-default relating to the Group's debt financing arrangements described above may make it substantially more difficult for the Group to obtain financing in the future, which may prevent the Group from continuing certain of its operations and planned modernisation and investment programme. Further, any such default accompanied by an acceleration of the relevant debt and enforcement of collateral could have a material adverse effect on the Group's business, financial condition and results of operations.

RISKS RELATED TO RUSSIA

The Group is a Russian company and a substantial portion of the Group's fixed assets are located in Russia and a substantial portion of the Group's revenues are derived from Russia. There are certain risks associated with an investment in Russia.

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Group's business, as well as cause the price of the Notes to suffer.

Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and who fully appreciate the significance of the risks involved in investing in emerging markets. Investors should note that emerging markets such as Russia are subject to rapid change and that the information set out in the Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in credit, equity and foreign exchange markets of all emerging market countries as investors move their money to more stable and developed markets. As it 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 any emerging market country could adversely affect the Group's business, financial condition and results of operations.

Political and social conflicts or instability could create an uncertain operating environment.

Russia is a federation of sub-federal political units, consisting of republics, regions, territories, cities of federal importance, an autonomous region and autonomous districts, some of which exercise considerable autonomy in their internal affairs pursuant to arrangements with the Government. The delineation of authority and jurisdiction between federal, regional and local authorities is, in many instances, unclear and contested, particularly with respect to the division of authority over regulatory matters. Lack of consensus between the federal, regional and local authorities often results in the enactment of conflicting legislation at various levels that may lead to further political instability. In particular, conflicting laws have been enacted in the areas at privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. The Russian political system is vulnerable to tension and conflict between federal, regional and local authorities. This tension creates uncertainties in the operating environment in Russia, which could hinder the Group's long term planning efforts and may prevent the Group from carrying out its business strategy effectively and efficiently.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, terrorist attacks. If such tensions escalate, significant political consequences could arise, including the imposition of a state of emergency in some or all regions of Russia. Moreover, any terrorist attacks and the resulting heightened security measures could cause disruptions to domestic commerce and could have a material adverse effect on economic confidence in Russia generally. For example, a military conflict in August 2008 between Russian and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on Russian stock exchanges. Further such conflicts or tensions could have a material 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 Notes.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness or failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. The government of former President Vladimir Putin generally increased governmental stability and accelerated the reform process, which made the political and economic situation in Russia more conducive to investment. Current President Dmitry Medvedev has assumed power from Putin in May 2008. Although a significant degree of continuity has been maintained between the two administrations due, in large part, to the appointment by President Medvedev of Putin as Russian's Prime Minister, President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future, and has recently stressed the need for further diversification of the Russian economy away from its longstanding focus on the extraction of raw materials. Moreover, while the Russian political system and the relationship between President Medvedev, the Russian government and the Russian parliament appear to be stable, future political instability could result from declines in the overall economic situation, including any deterioration in standards of living, as well as from the results of elections of the State Duma and the Russian President in 2011-2012. 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. Current and future changes in the federal government of Russia, major policy shifts or a lack of consensus between the Russian President, the federal government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments relating to Russia and as such on the Group's business, its ability to obtain financing in the international markets and, as a result, its financial condition and results of operations.

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

In the past, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes from, according to the Russian press, companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider programme of asset redistribution. The occurrence of similar events in the future, whether or not involving the Group as a result of any association of the Group (or its management or employees) with any political party or political association (*obyedinyeniye*), could result in deterioration of Russia's investment climate and could have an adverse effect on the Group's business, financial condition and results of operations.

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

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

- significant declines in gross domestic product;
- hyperinflation;

- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- widespread tax evasion;
- the growth of “black” and “grey” market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

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

In December 2008, the international credit rating agency Standard & Poor’s Financial Services downgraded Russia’s foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the current financial and economic crisis that began in the second half of 2008. Moody’s Investors Service, another international credit rating agency, changed its outlook to stable from positive on Russia’s key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country’s external financing needs. Should any of the international credit rating agencies issue additional negative credit assessments, a further reduction in foreign investment and an increased cost of borrowing for the Russian government may occur. Additionally, the impact of the recent global financial and economic crisis on the Russian economy led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the rouble against the U.S. dollar and euro, the rise of unemployment and an increase in the inflation rate.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for various products, including those carried by the Group, and therefore could have a material adverse effect on the Group’s business, financial condition and results of operations.

Sustained periods of high inflation could adversely affect the Group’s business.

The Russian economy has been characterised by high rates of inflation in recent years. According to the Ministry of Economical Development of Russia, the annual inflation rate was approximately 8.8% in 2010 and 2009 and 13.3% in 2008. The slowing rate of inflation from 2008 to 2010 was primarily a result of the global economic crisis, and there is no guarantee that the trend will continue. Certain of the Group’s costs of its Russian operations, such as wage costs, maintenance costs, construction costs and utilities costs, are sensitive to rises in the general price level in Russia. However, due to competitive pressures, the Group may not be able to increase the prices that it receives for its products sufficiently to preserve operating margins, particularly in the case of the

Group's export sales, when such inflation is accompanied by real appreciation of the rouble against the U.S. dollar. Accordingly, high rates of inflation in Russia could increase the Group's costs and decrease the Group's operating margins, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may experience reduced liquidity and difficulty in obtaining future financing.

The further development and exploration of mineral properties, in which the Group holds interests or which the Group may acquire, may depend upon the Group's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Group will be successful in obtaining required financing as and when needed. Volatile iron ore and steel markets may make it difficult or impossible for the Group to obtain debt financing or equity financing on favourable terms or at all. The Group's principal operations are located in Russia, an area that has experienced past economic and political difficulties and may be perceived as unstable. A recurrence of events similar to the recent global economic turndown could make it more difficult for the Group to obtain debt financing from project or other lenders. Failure to obtain additional financing on a timely basis may cause the Group to postpone development plans, forfeit rights in properties or reduce or terminate operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Group's business, financial condition and results of operations.

The Group may be affected by the relative underdevelopment of the physical infrastructure in Russia.

The physical infrastructure in Russia, including rail and road networks, port infrastructure, 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. In May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems. For example, in August of 2009, flooding and explosion at the Sayano—Shushenskaya Dam resulted in the deaths of over 70 people, as well as residential and commercial blackouts in the region.

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

The poor condition or further deterioration of 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 and results of operations.

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. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions for the benefit 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 may disrupt the Group's ability to conduct its business effectively, and any claims that it has been involved in corruption or illegal activities (even if false) that generate negative publicity could have a negative effect on the Group's business, financial condition and results of operations.

Social instability, including that caused by worsening economic conditions and turmoil in the Russian financial markets, could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect the Group's ability to conduct its business effectively.

The past failures of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the

past, and could lead in the future, to labour and social unrest. For example, in early 2005, pensioners in cities across Russia protested against the replacement of certain in-kind benefits with cash allowances. In view of these demonstrations, certain Russian cities and regions restored in part some of the benefits. Although the protests have since ceased, there can be no assurance that such protests will not occur again, whether as the result of a new law or regulation with similar effect being adopted, or otherwise. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, caused in part by the recent economic downturn, could result in higher 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 increased 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. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased violence. Any of these could restrict the Group's operations and lead to a loss of revenue, which could have a material adverse effect on the Group's business, financial condition and results of operations.

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

Russia continues to develop its legal framework in accordance with the international standards and requirements of a market economy. Since 1991, new Russian domestic legislation has been put into place. Currently, this system includes the Constitution of Russia of 1993; the Civil Code of Russia ("**Civil Code**") and other federal laws, decrees, orders and regulations issued by the President, government and federal ministries, which can be complemented by regional and local rules and regulations, adopted in certain spheres of regulation. These legal norms on the one hand can overlap or contradict one another and on the other hand can leave gaps in the regulatory infrastructure. Several Russian laws have only recently become effective. Consequently, certain areas at 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 Russian 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 unavailability of Russian legislation and court decisions in an organised manner that facilitates the understanding of such legislation and court decisions;
- 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 lack of judicial independence from political, social and commercial forces and alleged corruption within the judiciary and government authorities;
- a high degree of unchecked discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and that are subject to abuse.

Additionally, several fundamental Russian laws, including those relating to disclosure and reporting requirements as well as to money laundering, have only 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. All of these weaknesses could affect the Group's ability to enforce its rights under contracts, or to defend itself against claims by others, which could have a material adverse effect on the Group's business, financial condition and results of operations.

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 Russian Federal Antimonopoly Service ("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 the Mining

Division. Some of these acquisitions are, were, or may be 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 could have a material adverse effect on the Group's business, financial condition and results of operations.

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

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

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 its shareholders from obtaining effective redress in a court proceeding.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia is subject to doubt. The Russian court system in the past has been and may still be understaffed and underfunded. Judges and courts remain inexperienced in certain areas at business and corporate law, such as international and financial transactions. 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, which could have a material adverse effect on the Group's business, financial condition and results of operations.

In the event that the title to any 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 mining and steel making assets 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. 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 successfully to defend itself, the Group may lose its ownership interests, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Russia's property law is subject to uncertainty and contradiction and title to some of the Group's mineral properties or production facilities may be challenged.

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 it is

common in some of the more developed market economies of North America and Europe. 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. It is often difficult to determine with certainty the validity and enforceability of title to land in Russia and the extent to which it is encumbered. Moreover, in order to use and develop real property in Russia, approvals, consents and registrations of various federal, regional and local governmental authorities are required. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences including in respect of any current construction activities. 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 use of such real property, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The recently introduced Russian corporate governance code has not yet proven effective at ensuring strong corporate governance practices in Russia and the Group, being a joint stock company incorporated in Russia, is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other EU Member States or the United States.

In 2002, Russia introduced its first corporate governance code, which is recommended for companies listed on Russian stock exchanges after January 2006. However, the Russian legal system continues to suffer from a lack of effectiveness and fails to provide adequate support for strong corporate governance practices. According to the European Bank for Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests. In addition, as a joint stock company incorporated in Russia, the Group is not required to comply with the UK Combined Code principles on corporate governance or similar standards of other EU Member States or the United States.

Risks Related to Taxation

Russian tax law and practice are not fully developed and are subject to frequent changes.

The Russian entities of the Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including but not limited to, profits tax, mineral extraction tax, value added tax ("**VAT**"), property tax and payroll-related insurance payments.

Russian laws related to these taxes such as the Tax Code of the Russian Federation (the "**Tax Code**") and regulations relating thereto have been in force for a short period of time relative to tax laws in more developed market economies and the Russian Government's implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continual changes being introduced into existing laws and in the interpretation thereof.

Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Government may impose arbitrary and/or onerous taxes, fines and penalties in the future, which could adversely affect the business of the Group and its Russian subsidiaries. Russia's inefficient tax collection system increases the likelihood of such events.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Tax Code relating to the above-mentioned taxes are comparatively new, the interpretation and applications of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the 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 Ministry of Finance and the Russian tax authorities often interpret tax laws differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to them issuing an increased number of material tax assessments following tax reviews of companies operating in various industries. In practice, taxpayers often have to resort to court proceedings to defend their positions against the tax authorities. In the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgment of local tax authorities and fails to address many of the existing problems. It is therefore possible that the Group's transactions and activities that have not been challenged in the past may be challenged in the future.

In its decision of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating the criteria for its application. This concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, in practice this concept has been used by the tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on practice, the tax authorities and courts often exercised significant discretion in interpreting this concept in a manner that was at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 (the "**Ruling**"), which introduced a concept of the "unjustified tax benefit", defined mainly by a reference to specific examples of such tax benefits, (such as tax benefits received in connection with transactions that have no reasonable business purpose) which may lead to disallowance of their application for tax purposes. Based on the current practice, it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling 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 Supreme Arbitration Court. There are cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents 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 returns remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, from any further reviews during the three-year limitation period. In particular, a tax authority superior to that which has carried out the initial audit may re-audit the same period, although such re-audit would formally be undertaken as a review of the lower tax authority's work. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

On 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities and penalties to be extended beyond the three year term set out in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable obstacle for the tax review. Because the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction 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 liability for payment of taxes in Russia. A tax review, if it is concluded that the Group had significant tax underpayments for respective tax periods, may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition to the usual tax burden imposed on Russian tax payers, these conditions complicate tax planning and related business decisions. For example, Russian tax law is unclear with respect to the deductibility of certain expenses. This uncertainty could possibly expose the Group to significant fines and penalties and to enforcement measures, despite the Group's best efforts at compliance, and could result in a greater than expected tax burden.

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, no losses eligible for reducing the tax liability of one Russian legal entity in the Group may be used to reduce the tax liability of any other Russian legal entity in the Group. Recently the Russian Ministry of Finance has proposed draft legislation to introduce a tax consolidation regime which has been adopted in the first reading by the Russian State Duma on 22 October 2010 (it is still unclear if and when these amendments will be adopted). The draft legislation introduces consolidated tax reporting which may enable the consolidation of the final corporate tax results of taxpayers in one single corporate group. At this stage it is impossible to predict whether, when and how such consolidated tax regime will be enacted and to what extent it might affect the Group.

Despite the Russian Government's steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Government may impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, financial condition or results of operations. Additionally, there have been cases perceived as utilisation of tax claims as a tool for a state intervention in certain key industries.

In addition, the Russian tax authorities may in the future take a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities, which have not been challenged in the past may be challenged in the future.

The Russian tax authorities are increasingly taking a "substance over form" approach. While certain reductions in the rates such as for profits tax have been effected, it is expected that Russian tax legislation will become more sophisticated. The possibility exists that the Government may introduce additional revenue-raising measures. Although it is unclear how such measures would operate, the introduction of any such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Group will continue to seek to minimise such exposures through tax planning, it cannot offer prospective investors any assurances that additional tax exposures will not arise while the Notes are outstanding and any such additional tax exposure could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies in Russia or operations of Russian companies abroad. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for 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 for creating a permanent establishment under international rules, may be at risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities, the Group could be subject to additional taxation in Russia in respect of its operations outside of Russia.

Although the Group intends to conduct its affairs so that foreign entities of the Group are not treated as having a permanent establishment in Russia, no assurance can be given that the activities of these foreign entities will not be treated as creating a permanent establishment. The effect of having a permanent establishment would be to subject the affected entity to Russian tax in a manner similar to the taxation of a Russian legal entity.

Furthermore, Russian tax legislation in effect on the date of this Document does not contain a concept of tax residency for legal entities. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on Russian source income. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2008-2010 has proposed the introduction of a concept of tax residency for legal entities to the domestic tax law. It is proposed that a foreign legal entity would be deemed a Russian tax resident based on the place of its effective management and control and/or based

on the residence of its shareholders. No assurance can currently be given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the foreign entities of the Group or the Issuer. The Group may not rule out that as a result of the introduction of these changes certain foreign companies of the Group 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.

These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems.

Historically, the main Russian entities of the Group have been paying significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although the Group undertakes measures aimed at minimising tax risk and the approach to management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Russian entities of the Group would not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, fines and penalties and enforcement measures, and could adversely affect the Group's business, financial condition and results of operations.

Vaguely drafted Russian transfer pricing rules may have a negative effect on the operations of the Group.

Transfer pricing legislation in Russia that became effective on 1 January 1999 allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs) provided that the transaction price differs upwards or downwards from the market price by more than 20%. "Controlled" transactions include domestic and international transactions with related parties and certain other types of transactions between independent parties such as barter transactions, foreign trade transactions or transactions with significant price fluctuations (i.e., if the price of such transactions differs from prices applied by a taxpayer with respect to similar transactions by more than 20% within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives.

The transfer pricing rules are broad in scope and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts, and there has been limited guidance as to how these rules should be applied. Moreover, in the event that a transfer pricing adjustment is made by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the relevant transaction.

In 2009, a number of draft amendments to the transfer pricing law were announced which if implemented would considerably toughen the existing law and bring it more in line with international transfer pricing rules. The proposed transfer pricing rules have been approved by the Russian Parliament in the first reading. The targeted introduction date is 1 January 2012. There is no certainty as to when these amendments will be enacted and what exact effect these provisions may have on taxpayers, including the Group. Should these amendments be enacted, they may have a considerable impact on the Group's tax position.

Accordingly, due to the uncertainties in the interpretation of transfer pricing legislation, no assurance can be given that the tax authorities will not challenge the Group's pricing and make adjustments, which could affect the Group's tax position. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS RELATED TO THE NOTES

The Issuer's ability to fulfil its obligations under the Notes is dependent on the Group.

The Issuer is an indirect wholly owned subsidiary of the Parent and will use the net proceeds from the issuance of the Notes for the Group's general corporate purposes, including the repayment of existing indebtedness. The

Issuer has insufficient net assets, other than amounts due to it from the Group in respect of any inter-Group loans, to meet its obligations to pay interest and other amounts payable in respect of the Notes. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Group providing sufficient funds to meet such obligations.

In addition, the other members of the Group are separate and distinct legal entities and have no obligation, other than the Guarantors in relation to the Guarantees, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not—apart from the Guarantors—guarantee the payment of interest on, or principal of, the Notes.

Payments under the Guarantees may be subject to Russian withholding tax.

Payments under the Guarantees to a Non-Resident Noteholder Legal Entity (as defined in section "Taxation—Taxation in the Russian Federation") related to interest on the Notes are likely to be characterised as Russian source income. Accordingly, such payments should be subject to withholding tax in Russia at the rate of 20%, or such other rate as may be in force at the time of payment, in the event that the payment under the Guarantees is made to a Non-Resident Noteholder—Legal Entity. There can be no assurance that such withholding tax would not be imposed on the full payment under the Guarantees, including with respect to the principal amount of the Notes. In addition, while it may be possible for some Noteholders who are eligible for withholding tax relief under applicable double tax treaties to reduce or eliminate the Russian withholding tax or to claim a refund of tax already withheld, there could be considerable practical difficulties in obtaining any such treaty relief given that the Noteholders will not be the immediate recipients of the payments under the Guarantees.

Payments under the Guarantees to a Non-Resident Noteholder Individual (as defined in section "Taxation—Taxation in the Russian Federation") made by the Guarantors may be subject to Russian tax as Russian source income. In this case, depending on how these payments would be effected, either the full amount of payment or a part of such payments covering the interest on the Notes would be subject to the 30% tax which may be withheld at the source or paid on a self-assessed basis. This tax may be subject to relief or reduced tax rate under the terms of an applicable double tax treaty. See section "Taxation—Taxation in the Russian Federation". However, given the uncertainties regarding the form and procedures for providing the documentary support, it is unlikely that Non-Resident Noteholder Individuals in practice would be able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If payments under the Guarantees become subject to Russian withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature (as a result of which the Guarantors would have to reduce payments made under the Guarantees by the withheld amount), the Guarantors will be obliged (subject to certain conditions and exceptions) to increase payments under the Guarantees so as to result in the receipt by the Trustee acting on behalf of the Noteholders of such amounts as would have been received by it if no such withholding or deduction had been required. However, there is some uncertainty under Russian law as to the enforceability of such gross-up provisions. If the Guarantors were to fail to make tax gross-up payments in accordance with the terms of the Guarantees and the related provisions under the Guarantees were deemed to be unenforceable, the net amount of the payments made by the Guarantors to the Trustee acting on behalf of the Noteholders could be insufficient to make payment in full under the Notes. See "Taxation—Taxation in the Russian Federation".

The Issuer may at its option redeem the Notes if: (i) the Issuer (or, if the Guarantees were called, the Guarantors) has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws, treaties or regulations of Ireland in the case of payment by the Issuer or Russia in the case of payment by a Guarantor or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the published application or official interpretation of such laws, treaties or regulations, which change or amendment becomes effective on or after the date of this Prospectus and (ii) such obligation cannot be avoided by the Issuer (or the Guarantors, as the case may be) taking reasonable measures available to it. If the Issuer redeems the Notes under such circumstances, the redemption price will be equal to the principal amount of the Notes outstanding plus any interest and additional amounts accrued but unpaid as at the date of the redemption. See Condition 6.2 in "Terms and Conditions of the Notes".

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a Non-Resident Noteholder, which is a legal entity or an organisation, which in either case is not organised under Russian law and which holds and disposes of the Notes otherwise than through its permanent

establishment in Russia, sells the Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to the 20% Russian withholding tax (even if the disposal resulted in a capital loss) although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities.

If a Non-Resident Noteholder who is an individual sells or disposes of the Notes and receives proceeds from a source within Russia, Russian withholding tax will be charged at the rate of 30% on the gross amount of proceeds from such disposal of the Notes less any available documented cost deductions (including the acquisition cost of the Notes). Although such tax may be reduced or eliminated under the provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals will not be able to obtain advance treaty relief on the receipt of proceeds from a source within Russia, and obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. Furthermore, even though the Tax Code requires only an asset manager or broker, or other party, which is a Russian legal entity or an organisation, or any other person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax associated with the disposition of securities from the payment made to a Non-Resident Noteholder who is an individual, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "Taxation—Taxation in the Russian Federation".

In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

Noteholders may be subject to withholding tax in EU Member States that have opted for a withholding system under the EU Savings Directive

Under Council Directive 2003/481/EC on the taxation of savings income (the "**EU Savings Directive**"), each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other EU Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the recipient of the interest payment must be allowed, upon meeting certain conditions, to elect that certain provision of information procedures should be applied instead of withholding. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner resident in, or certain limited types of entity established in, an EU Member State. In addition, the EU Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in an EU Member State to an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If an amount of, or in respect of, tax were to be withheld from a payment under a Note pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meetings of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. See Condition 8 in "Terms and Conditions of the Notes". The Issuer is, however, required to maintain a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive or any other such Directive. See Condition 7.6 in "Terms and Conditions of the Notes".

If there is a change of control, Noteholders may require the Issuer to redeem the Notes.

Following the occurrence of a "Change of Control Put Event", as described under "Terms and Conditions of the Notes", the Noteholders may, at their option, require the Issuer to redeem the Notes at a price equal to 100 per cent. of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption.

If the Additional Guarantor fails to execute and deliver the Additional Guarantee no later than 50 days from the Issue Date, the Noteholders may require the Issuer to redeem the Notes.

The Parent has undertaken in the Notes to procure, no later than 50 days from the Issue Date, that the Additional Guarantor will execute and deliver to the Trustee the Additional Guarantee in favour of the Trustee, pursuant to which it will unconditionally and irrevocably guarantee the payment of all the amounts due by the Issuer under the Notes. As the issuance of any such Additional Guarantee constitutes an interested party transaction for the Additional Guarantor under the Russian Joint Stock Companies Law, the provision of such Additional Guarantee requires the approval of the majority of the "disinterested shareholders" of the Additional Guarantor. The Parent does not have control over disinterested shareholders in any of its subsidiaries and there can be no assurance that the disinterested shareholders will approve the issuance of any such Additional Guarantee. If the Additional Guarantor fails to execute and deliver the Additional Guarantee no later than 50 days from the Issue Date, the Noteholders may, at their option, require the Issuer to redeem their Notes at a price per Note equal to 101 per cent. of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption. See "Overview of the Offering". There can be no assurance that, if required to redeem the Notes in whole or in part, the Issuer or the other Guarantors will have, or be able to obtain, the funds required to make such payments.

The Notes may be redeemed at the option of the Issuer in certain circumstances.

The Issuer may at its option redeem the Notes if, as a result of any change in or amendment to the laws, treaties and regulations of any Relevant Jurisdiction (as defined in "Terms and Conditions of the Notes") or any change in published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of this Prospectus, the Issuer becomes obliged to pay additional amounts in order that every net payment made after deduction or withholding for any Irish and Russian taxes is not less than the full amount then due and payable. If the Issuer redeems the Notes in such circumstances, the redemption price will be equal to 100 per cent. of the principal amount of the Notes plus any interest and additional amounts due. The Issuer may also at its option redeem the Notes in whole, but not in part, at any time prior to the Maturity Date but on one occasion only, on giving not less than 30 and not more than 60 days irrevocable notice to the Noteholders, at a price equal to the aggregate of the principal amount thereof, plus the Make Whole Premium (as defined in the Terms and Conditions of the Notes), plus any accrued and unpaid interest and additional amounts (if any) to (but excluding) the date of redemption, as described under "Terms and Conditions of the Notes".

Noteholders may face difficulties in enforcing their rights under the Guarantees or the Notes.

The Issuer is incorporated in Ireland, and the Guarantors are incorporated in Russia. Noteholders do not have the right to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes, save for lodging a claim in any liquidation proceedings of the Issuer that are initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer. Further, the enforceability of the Notes or the Guarantees issued in connection with the Notes may be subject to numerous legal defences. See "Enforceability of Judgments".

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in the Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The debt agreements that the Group has entered into include covenants that may restrict the Group from making certain business decisions and/or carrying out its business strategy.

The agreements that govern the Group's debt instruments, including the Notes, contain certain restrictions limiting its flexibility in operating its business. Such restrictions limit the Group's ability to:

- create liens;
- borrow money;
- sell or otherwise dispose of assets; and
- engage in mergers or consolidation.

These restrictions could hinder the Group's ability to carry out its business strategy and the Issuer's and/or Guarantors' ability to make payments on the Notes or the Guarantees (as the case may be).

In addition, a breach of the Notes and/or the Guarantees or the terms of other debt instruments could cause a default under the terms of the Group's other financing arrangements, causing all debt under those financing arrangements to become due. No assurance can be given that if the indebtedness under the Notes were to be accelerated, the assets of the Group would be sufficient to generate the funds necessary to repay the Notes, in full in satisfaction of its obligations under the Notes.

The Group has a significant amount of indebtedness, which could have an adverse impact on the Group's ability to fulfil its obligations under the Notes and the Guarantees.

As at 31 March 2011, the Group's borrowings totalled RUB 118,847 million, including the current portion of RUB 44,785 million, with maturities ranging from 2011 to 2018. The Group's ability to make scheduled payments of interest and principal under its indebtedness, including the Notes, depends on, among other things, its future operating performance and its ability to refinance its debt. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other influences, many of which are beyond the control of the Group. The Group cannot make assurances that it will be able to repay or refinance all its loans upon maturity or that any such refinancings will be on favourable terms for the Group. If the Group is unable to refinance or repay its loans, or if the Group is required to refinance its loans on unfavourable terms, the Group's ability to pay interest and principal on the Notes may be impaired.

There is no active trading market for the Notes.

Prior to their issue, there was no public market for the Notes. The Notes are expected to be listed on the Official List of the U.K. Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors.

In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

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

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and DTC. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and DTC 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 Notes. Because Euroclear, Clearstream, Luxembourg and DTC 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, Clearstream, Luxembourg or DTC systems may be impaired.

The Notes are subject to restrictions on transfer.

The Notes are being offered and sold in the United States in reliance on Rule 144A (the "**Rule 144A Offering**") to purchasers who are QIBs. The Notes also may be offered and sold outside the United States (the "**Regulation S Offering**") in reliance on Regulation S. Each purchaser of Notes pursuant to the Rule 144A Offering will be deemed to have represented to the Issuer that it is a QIB. Each purchaser of the Notes pursuant to the Regulation S Offering will be deemed to have represented to the Issuer that it is not a U.S. person within the meaning of Regulation S and is not acquiring Notes for the account or benefit of any U.S. person. See "Transfer Restrictions".

The Notes are subject to risks relating to exchange rate and exchange controls.

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or current unit (the "**Investor's Currency**") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Changes to the credit ratings of the Group or the Notes may adversely affect the value of the Notes.

The Notes are expected to be rated Ba3 by Moody's and BB- by Fitch. The foregoing credit ratings do not mean that the Notes are a suitable investment. A 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. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating. Any changes in the credit ratings of the Group or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

The Issuer may issue further Notes with identical terms that may have a negative impact on the market value of the original Notes.

The Issuer may, without the consent of the Noteholders of outstanding Notes, issue further Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the

original Notes, may be treated as a separate series for U.S. federal income tax purposes. If the further Notes are issued with OID and the original Notes had no OID, or the further Notes have a greater amount of OID than the original Notes, this may have a negative impact on the market value of the original Notes if the further Notes are not otherwise distinguishable from the original Notes.

The Issuer is subject to risks relating to the location of its centre of main interest ("COMI"), the appointment of examiners and the claims of preferred creditors under Irish law.

COMI

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its COMI is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of May 29, 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, the majority of its directors are tax resident in Ireland, it is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it is asked to make that decision. If the Issuer's COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court procedure available under the Companies (Amendment) Act 1990, as amended, to facilitate the survival of Irish companies in financial difficulties. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the High Court of Ireland (the "**High Court**") when a minimum of one class of creditors, whose interests are impaired under the proposals, has (i) voted in favour of the proposals and (ii) the High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and (iii) whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

USE OF PROCEEDS

It is anticipated that the net proceeds from the issue and sale of the Notes will be approximately U.S.$743.2 million to be used to repay existing indebtedness.

CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, total borrowings and total equity, as at 31 March 2011 on a consolidated historical basis and as adjusted for the issue of the Notes, assuming that such issue and the receipt of such proceeds occurred on 31 March 2011, but not adjusted for any other changes subsequent to that date. The financial information on an actual basis set out below was extracted from the Interim Financial Statements.

The capitalisation information presented as adjusted has been prepared for the purpose of showing the effect of the issue of the Notes on the applicable items in the table below as if it had occurred on 31 March 2011, and has been prepared for illustrative purposes only. By its nature such information addresses a hypothetical situation and therefore does not reflect the Group's actual financial position. The capitalisation information presented as adjusted is compiled on the basis set out in the notes below in a manner consistent with the accounting policies adopted by the Group in preparing the Consolidated Financial Statements.

Prospective investors should read this table in conjunction with "Selected Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements including the notes thereto, which are included in the Prospectus beginning on page F-1.

	As at 31 March 2011		
	Actual	**Adjustments for Offering Proceeds**	**As adjusted for the Offering**
		(RUB millions)	
Cash and cash equivalents	10,659	21,126[(1)]	31,785
Total borrowings	118,847	21,322[(2)]	140,169
Equity			
Share capital	5,527	—	5,527
Retained earnings and other reserves	88,715	—	88,715
Equity attributable to the Parent's owners	**94,242**	**—**	94,242
Non-controlling interests	2,666	—	2,666
Total equity	**96,908**	**—**	96,908
Total borrowings and total equity	**215,755**	**21,322**	**237,077**

(1) The increase in cash reflects the receipt of the net proceeds of this Offering, after deducting estimated underwriting commissions, fees and expenses incurred in connection with the Offering of approximately U.S.$6.9 million (approximately RUB 196 million, converted at the foreign currency exchange rate set by the CBR as of 31 March 2011).

(2) Represents indebtedness incurred as a result of the offering of the Notes hereby. It should be noted that this adjustment does not reflect the entry by the Group into the PXF Facility and subsequent drawdown of U.S.$3.1 billion thereunder and repayment of U.S.$1.07 billion under the Group's other bank facilities as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Bank Loans and Credit Facilities" or the planned repayment of US$745.3 million in existing indebtedness of the Group as the application of the proceeds of the Offering.

Other than as disclosed under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments" there has been no material change in the Group's capitalisation since 31 March 2011.

SELECTED FINANCIAL INFORMATION

The following is a summary of the Group's financial information for the periods indicated. The financial information as at 31 March 2011 and for the three months ended 31 March 2011 and 2010 was extracted from the Interim Financial Statements. The financial information as at and for the years ended 31 December 2010 and 2009 was extracted from the 2010 Financial Statements. The financial information as at and for the year ended 31 December 2008 was extracted from the 2009 Financial Statements, with the exception of segment information as described in "Presentation of Financial and Other Information". The information below should be read together with the Consolidated Financial Statements included elsewhere in the Prospectus, "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Financial information presented below in U.S. dollars is shown for convenience only at the closing foreign currency exchange rate set by the CBR on 31 March 2011 of RUB 28.43 = U.S.$1.00. No representation is made that the rouble or U.S. dollar amounts referred to herein could have been or could be converted into roubles or U.S. dollars, as the case may be, at any particular rate or at all.

Selected Consolidated Statement of Comprehensive Income Data

	Year ended 31 December				Three months ended 31 March		
	2008	2009	2010	2010	2010	2011	2011
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*		*(U.S.$ millions)*
Sales	229,947	150,372	219,668	7,727	44,406	70,740	2,488
Cost of sales	(123,737)	(93,751)	(110,386)	(3,883)	(27,154)	(32,574)	(1,146)
Gross profit	**106,210**	**56,621**	**109,282**	**3,844**	**17,252**	**38,166**	**1,342**
Distribution expenses	(17,269)	(32,402)	(33,060)	(1,163)	(6,815)	(11,493)	(404)
General and administrative expenses	(9,455)	(8,729)	(10,846)	(381)	(2,305)	(2,878)	(101)
Excess of fair value of net assets acquired over the cost of acquisition	17	—	—	—	—	—	—
Fair value loss on financial liability	(16,691)	—	—	—	—	—	—
Gain on initial recognition of derivative financial instruments	—	—	—	—	—	2,324	82
Impairment losses	(21,351)	—	—	—	—	—	
Other operating (expenses)/income—net	1,936	339	(2,710)	(96)	(515)	(802)	(28)
Operating profit	**43,397**	**15,829**	**62,666**	**2,204**	**7,617**	**25,317**	**891**
Finance income	1,109	2,367	880	31	346	91	3
Finance costs	(11,004)	(14,632)	(14,767)	(519)	(3,559)	(2,489)	(88)
Foreign exchange gain/(loss) from borrowings	(10,824)	(520)	216	8	2,678	947	33
Gain on extinguishment of financial liability	—	12,765	—	—	—	—	—
Share of net profit/(loss) of associates	(210)	(158)	(221)	(8)	(27)	5	0
Profit before income tax	**22,468**	**15,651**	**48,774**	**1,716**	**7,055**	**23,871**	**839**
Income tax charge	(14,224)	(1,735)	(12,340)	(434)	(2,131)	(5,212)	(183)
Profit for the period	**8,244**	**13,916**	**36,434**	**1,282**	**4,924**	**18,659**	**656**
Currency translation differences	(4,411)	(661)	(202)	(7)	719	1,612	57
Fair value gain/(loss) on available-for-sale assets	(689)	1,263	—	—	—	—	—
Actuarial gain/(loss)	464	305	(521)	(18)	(967)	—	—
Gain on available-for sale assets transferred to the statement of comprehensive income	(5,944)	(1,010)	—	—	—	—	—
Other comprehensive income	**(10,580)**	**(103)**	**(723)**	**(25)**	**(248)**	**1,612**	**57**
Total comprehensive income for the period	**(2,336)**	**13,813**	**35,711**	**1,257**	**4,676**	**20,271**	**713**
Attributable to:							
Owners of the Parent	(2,837)	13,752	35,362	1,245	4,647	20,268	713
Non-controlling interests	501	61	349	12	29	3	0

Selected Consolidated Statement of Financial Position Data

	As at 31 December				As at 31 March	
	2008	2009	2010	2010	2011	2011
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*	*(U.S.$ millions)*
Cash and cash equivalents, net of restricted cash	4,901	12,327	4,633	163	10,659	375
Total assets	271,097	257,561	249,883	8,789	261,624	9,202
Total borrowings (long-term and short-term)	177,926	164,491	126,377	4,445	118,847	4,180
Total liabilities	237,640	209,557	172,678	6,074	164,716	5,794
Total equity	33,457	48,004	77,205	2,716	96,908	3,409

Selected Consolidated Cash Flows Data

	Year ended 31 December				Three months ended 31 March		
	2008	2009	2010	2010	2010	2011	2011
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*		*(U.S.$ millions)*
Net cash from operating activities	58,980	19,389	47,631	1,675	5,824	18,818	662
Net cash from/(used in) investing activities	(68,928)	7,450	(9,853)	(347)	(1,614)	(7,180)	(253)
Net cash from/(used in) financing activities	5,621	(18,671)	(47,823)	(1,682)	(7,451)	(5,253)	(185)
Net increase/(decrease) in cash and cash equivalents	(4,034)	8,287	(10,005)	(352)	(3,376)	6,026	212
Cash and cash equivalents at the beginning of the period, net of restricted cash	10,385	6,351	14,638	515	14,638	4,633	163
Cash and cash equivalents at the end of the period, net of restricted cash	6,351[1]	14,638[2]	4,633[3]	163	11,262[4]	10,659[5]	375
Included in cash and cash equivalents per the statement of financial position	4,901	12,327	4,633	163	8,951	10,659	375
Included in the assets of the disposal group	1,450	2,311	—	—	2,311	—	—

(1) Amount includes RUB 1,450 million in cash and cash equivalents included in the assets of the disposal group, net of restricted cash of RUB 487 million as at 31 December 2008.

(2) Amount includes RUB 2,311 million in cash and cash equivalents included in the assets of the disposal group, net of restricted cash of RUB 176 million as at 31 December 2009.

(3) Net of restricted cash of RUB 0 million as at 31 December 2010.

(4) Net of restricted cash of RUB 19 million as at 31 March 2010.

(5) Net of restricted cash of RUB 7 million as at 31 March 2011.

Adjusted EBITDA and Management EBITDA

The Prospectus includes certain measures that are non-IFRS measures. See "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Adjusted EBITDA and Management EBITDA".

	Year ended 31 December				Three months ended 31 March		
	2008	2009	2010	2010	2010	2011	2011
	(RUB millions, except %)			*(U.S.$ millions, except %)*	*(RUB millions, except %)*		*(U.S.$ millions, except %)*
Adjusted EBITDA[1]	88,460	26,575	74,498	2,620	10,807	26,524	933
Adjusted EBITDA margin[3]	38.5%	17.7%	33.9%	33.9%	24.3%	37.5%	37.5%
Management EBITDA[2]	88,586	26,612	78,595	2,765	11,537	26,923	947
Management EBITDA margin[3]	38.5%	17.7%	35.8%	35.8%	26.0%	38.1%	38.1%

	As at 31 December				As at 31 March	
	2008	2009	2010	2010	2011	2011
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*	*(U.S.$ millions)*
Net financial debt[4]	173,025	152,164	121,744	4,282	108,188	3,805

(1) Adjusted EBITDA, for any relevant period, represents operating profit before tax, depreciation and amortisation, finance income, finance costs, foreign exchange gains or losses, gains on extinguishment of financial liabilities, gains on available-for-sale financial assets and certain other non-cash and extraordinary items ("**Adjusted EBITDA**"). Since Adjusted EBITDA is a non-IFRS measure, the Group's definition may differ from (and therefore may not be comparable to) similarly titled measures used by other companies. See "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Adjusted EBITDA and Management EBITDA".

(2) Management EBITDA is defined as Adjusted EBITDA adjusted to exclude the effect of capitalisation of elements of cost of non-current assets recognized as expenses in profit or loss in accordance with RAS; additional losses on disposals of property, plant and equipment; unrealised profits adjustments; impairments of receivables; employee benefits obligations adjustments; reclassification of waiver fees and other charges from operating expenses to finance costs; annual bonus accruals and other adjustments ("**Management EBITDA**").

Adjusted EBITDA and Management EBITDA are presented because the chief operating decision maker evaluates the performance of the Group's operating segments on the basis thereof, and Management believes they are frequently used by securities analysts, investors and other parties in the evaluation of companies in the Group's industry.

Reconciliation of Adjusted EBITDA and Management EBITDA to profit before tax for the years ended 31 December 2008, 2009 and 2010, and for the three-month periods ended 31 March 2010 and 2011, is as follows:

	Year ended 31 December				Three months ended 31 March		
	2008	2009	2010	2010	2010	2011	2011
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*		*(U.S.$ millions)*
Profit before tax	22,468	15,651	48,774	1,716	7,055	23,871	839
Adjustments for:							
Depreciation and amortisation	12,167	12,519	11,649	409	2,997	3,166	111
Finance income	(1,109)	(2,366)	(880)	(31)	(346)	(91)	(3)
Finance costs	11,004	14,632	14,767	519	3,559	2,489	88
Foreign exchange gain/(loss)	10,216	(269)	(33)	(1)	(2,485)	(582)	(20)
Fair value loss on financial liability	16,691	—	—	—	—	—	—
Gain on extinguishment of financial liability	—	(12,765)	—	—	—	—	—
Gain on initial recognition of derivative financial instruments	—	—	—	—	—	(2,324)	(82)
Impairment losses	21,351	—	—	—	—	—	—
Net gain on available-for-sale financials assets	(5,944)	(985)	—	—	—	—	—
Impairment of prepayment for an investment	1,406	—	—	—	—	—	—
Share of net profit/(loss) of associates	210	158	221	8	27	(5)	0
Adjusted EBITDA	**88,460**	**26,575**	**74,498**	**2,620**	**10,807**	**26,524**	**933**
Adjustments to reach Management EBITDA:							
Capitalisation of elements of cost of non-current assets recognized as expenses in profit or loss in accordance with RAS	(931)	(513)	(1,449)	(51)	(91)	(166)	(6)
Additional loss on disposal of property, plant and equipment	625	488	275	10	25	14	0
Unrealised profits adjustment	1,207	(633)	2,928	103	199	1,052	37
Additional reverse of provision for impairment of receivables/(additional provision for impairment of receivables)	531	576	(126)	(4)	68	34	1
Employee benefits obligations adjustment	(113)	679	1,339	47	420	(31)	(1)
Reclassification of waiver fees and other charges from operating expenses to finance costs	(161)	(325)	(240)	(8)	—	—	—
Annual bonus accrual	—	—	1,082	38	—	(1,082)	(38)
Other adjustments	(1,032)	(235)	288	10	109	578	21
Management EBITDA	**88,586**	**26,612**	**78,595**	**2,765**	**11,537**	**26,923**	**947**

(3) Adjusted EBITDA margin and Management EBITDA margin are calculated as Adjusted EBITDA divided by sales and Management EBITDA divided by sales, respectively.

(4) Net financial debt represents total long-term and short-term loans and borrowings, less cash and cash equivalents, which includes short term bank deposits (excluding restricted cash). Net financial debt is not a standard IFRS measure and should not be considered as an alternative to other measures of financial position. The Group's calculation of net financial debt may be different from the calculation used by other companies and therefore comparability may be limited.

The Group uses net financial debt to provide an assessment of its overall indebtedness, because Management believes it is a commonly used measure in the investment analyst community. Net debt allows the Group to show investors the trend in its net financial condition over the periods presented. However, the use of net financial debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that the Group would use all of its cash to reduce its gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net financial debt and its ratio to equity, or leverage, are used to evaluate the Group's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether the Group's financial structure is adequate to achieve its business and financial targets. The Group's management monitors the net financial debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess the Group's liquidity and financial structure relative to such companies. Management also monitors the trends in its net financial debt and leverage in order to optimise the use of internally generated funds versus funds from third parties.

Net financial debt has been calculated as at 31 December 2008, 2009 and 2010, and as at 31 March 2011, as follows:

	As at 31 December				As at 31 March	
	2008	**2009**	**2010**	**2010**	**2011**	**2011**
	(RUB millions)			*(U.S.$ millions)*	*(RUB millions)*	*(U.S.$ millions)*
Long-term borrowings	30,875	101,243	85,726	3,015	74,062	2,605
Short-term borrowings	147,051	63,248	40,651	1,430	44,785	1,575
Cash and cash equivalents	(4,901)	(12,327)	(4,633)	(163)	(10,659)	(375)
Net financial debt	**173,025**	**152,164**	**121,744**	**4,282**	**108,188**	**3,805**

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

The following discussion and analysis of the Group's financial condition and results of operations is based on the financial information extracted or derived from, and should be read in conjunction with, the Consolidated Financial Statements beginning on page F-1 of the Prospectus and "Presentation of Financial and Other Information".

In addition to historical information, the following discussion and other parts of the Prospectus contain forward-looking information that involves risks and uncertainties. The Group's actual results could differ materially from those anticipated by such forward-looking statements due to factors discussed under "Risk Factors" and "Forward-Looking Statements".

OVERVIEW

The Group is one of the largest iron ore and HBI producers and suppliers globally and the leading regional iron ore producer that extracts and exploits iron ore from the second largest measured iron ore reserve base in the world with approximately 14.9 billion tonnes of proven and probable reserves on a JORC equivalent basis and over 160 years of reserve life (being the ratio of reserves (proven and probable) to mined production as at 1 July 2010). In 2010, according to CRU, the Group was the fifth largest commercial iron ore producer in the world, the largest commercial iron ore producer in Europe and the CIS, the largest supplier of merchant HBI in the world, the largest producer of HBI/DRI in Europe, Russia and the CIS, and the fifth largest steel producer in Russia.

The Group is a global player in the production of beneficiated iron ore products, processing the majority of its primary iron ore concentrate production into value-added products, such as high-grade iron ore concentrate, iron ore pellets and HBI/DRI. In 2010, the Group accounted for the output of 36% of iron ore concentrate and sintering ore, 59% of iron ore pellets and 100% of HBI/DRI in Russia, producing approximately 36.8 million tonnes of sintering ore and concentrate, 22 million tonnes of iron ore pellets and 4.7 million tonnes of HBI/DRI. In the three months ended 31 March 2011, the Group produced approximately 9.9 million tonnes of sintering ore and concentrate, 5.7 million tonnes of iron ore pellets and 1.3 million tonnes of HBI/DRI.

The Group is also a leading regional and domestic producer of niche steel products, accounting in 2010 for approximately 9% of crude steel and steel products produced in Russia. In 2010, the Group produced approximately 6.1 million tonnes of crude steel and 5.4 million tonnes of value-added steel products including pipe billets, square billets and a variety of value-added products, such as hot-rolled steel sheets, heavy plates, strips for large diameter pipes, bridge construction steel, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. In the three months ended 31 March 2011, the Group produced approximately 1.5 million tonnes of crude steel and 1.3 million tonnes of value-added steel products.

The Group is organised into three integrated operating divisions focusing on mining operations, steel production and auxiliary businesses and other assets. The Mining Division comprises LGOK and MGOK, and the Steel Division comprises OEMK, Ural Steel and Ural Scrap Company. In addition to its mining and steel businesses, the Group owns several other auxiliary businesses and other assets that provide services and raw materials to the Mining and Steel Divisions. These include, in particular, trading, transportation, logistics and leasing services, as well as a steel rolling mill in the UAE. In addition to its principal operating divisions, the Group has a centralised sales and marketing function that coordinates the operating divisions' monitoring of markets, production strategy and external sales, enabling the Group to identify and exploit market synergies and improve operational efficiencies.

The Group's main production facilities at LGOK, MGOK and OEMK are well-positioned in the European part of Russia with ready access to an established infrastructure network and key domestic, regional and international markets, including Russia, CIS, Eastern Europe, the Middle East and Asia. Ural Steel is located in the Ural region of Russia in close proximity to Russian pipe producers. With its significant global, regional and domestic market positions throughout the entire mining production chain, and a leading position in the regional and domestic production of niche steel products, the Group has a wide portfolio of products and sells to customers in various industry sectors in both the domestic and export markets.

For the year ended 31 December 2010, the Group generated RUB 219,668 million in sales and RUB 78,595 million in Management EBITDA, of which the Mining Division generated RUB 60,382 million and the

Steel Division generated RUB 14,205 million. For the three months ended 31 March 2011, the Group generated RUB 70,740 million in sales and RUB 26,923 million in Management EBITDA, of which the Mining Division generated RUB 21,555 million and the Steel Division generated RUB 4,597 million.

SEGMENT REPORTING

IFRS Segment Reporting

The Group is organised into the following four operating segments reportable under IFRS focusing on mining operations, steel production, trading, transportation:

- The mining segment ("**Mining Segment**") is comprised of LGOK and MGOK. This segment produces the Group's mining products. In 2010, the Mining Segment made 18% of its sales to the Steel Segment (which uses the Mining Segment's products in steel production); 42% of its sales to the Trading Segment, which then sells the mining products to external customers outside of Russia; and 40% of its sales directly to external customers within Russia and the CIS.
- The steel segment ("**Steel Segment**") is comprised of OEMK, Ural Steel and Ural Scrap Company, a ferrous scrap supplier. The Steel Segment produces the Group's steel products. In 2010, the Steel Segment made 42% of its sales to the Trading Segment, which then sells the steel products to external customers outside of Russia and 58% of its sales to external customers within Russia and the CIS.
- The trading segment ("**Trading Segment**") is comprised of Ferrous Metal Company Limited ("**FMC**") and Metalloinvest Trading AG ("**MIT AG**"), iron ore and steel products traders registered in Gibraltar and in Switzerland, respectively. The Trading Segment purchases mining and steel products from the Mining and Steel segments and sells these products on to customers outside of Russia.
- The transportation segment ("**Transportation Segment**") is comprised of Metalloinvestrans LLC, which provides rail transportation and logistics services for Group companies and third parties in Russia and the CIS.

In addition to the mining, steel, trading and transportation segments, the Group owns several auxiliary companies, including Hamriyah Steel and the Group's activities in exploration and evaluation of oil and gas and copper deposits (together, "**All other Segments**").

In addition to its principal reporting segments, the Group has a centralised sales and marketing function that coordinates the operating segments' monitoring of markets, production strategy and external sales, designed to assist the Group in identifying and exploiting market synergies and improving operational efficiencies.

Under IFRS, the Group is required to report the segments set forth above. See Note 6 "Segment Information" to the 2010 Financial Statements and Note 6 "Segment Information" to the 2009 Financial Statements.

As described in Note 6 to the 2010 Financial Statements, in 2010 the Group's chief operating decision maker ("**CODM**") changed the approach to identifying operating segments. Accordingly, from 1 January 2010, the leasing business is no longer separately reviewed by the Board of Directors to make operating and strategic decisions and not assessed as a separate reportable segment. Operating results and performance measures of the leasing segment are assessed as a part of the respective segments to which the leasing services are provided. Additionally, from 1 January 2010, the Group's ferrous scrap supplier is assessed as a part of the Steel Segment. For the purposes of the 2010 Financial Statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations, financial information as at and for the years ended 31 December 2009 and 2008 have been prepared to conform to the 2010 reporting segments, which differ from the presentation contained in the 2009 Financial Statements.

Sales by Geographic Location

The Group sells its products domestically within Russia as well as to customers in other parts of the world. The Mining and Steel Segments sell directly to the Group's customers in Russia and the CIS, while the Trading Segment sells to customers outside of Russia and the CIS. The following table shows the Group's external sales by geographic location for the year ended 31 December 2010 and the three months ended 31 March 2011:

	Year ended 31 December 2010		Three months ended 31 March 2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Russia	88,411	40.2	24,326	34.4
CIS	19,902	9.1	6,071	8.6
China	18,061	8.2	11,258	15.9
Slovakia	10,895	5.0	2,885	4.1
Turkey	10,811	4.9	3,830	5.4
Other countries	71,588	32.6	22,370	31.6
Total	**219,668**	**100.0**	**70,740**	**100.0**

The proportion of the Group's sales outside Russia has fluctuated during the period under review, with foreign sales peaking in 2009 at 66.2% of total sales before declining in 2010 to 59.8%, and recovering in the three months ended 31 March 2011 to 65.6%. The charge largely reflects the somewhat faster recovery from the global economic downturn in Russia compared to the Group's traditional export markets during the course of 2010 as manifested in the comparative demand for iron ore products and finished steel. See "Industry—Iron Ore Industry—World Iron Ore Consumption in 2007-2010" and "Industry—Steel Industry—World Finished Steel Consumption by Region 2007-2010".

SIGNIFICANT FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

Management believes that the factors discussed below have materially affected the Group's business, financial condition and results of operations since 1 January 2008, and that such factors may continue to have a material effect on the Group's business, financial condition and results of operations in the future.

Effects of the Global Downturn

Following a number of years of strong growth, global economic conditions started to rapidly deteriorate during the third quarter of 2008 as the major financial markets became increasingly unstable. Most major developed economies moved into recession by the end of 2008. This deterioration in global economic activity continued in 2009, leading to a substantial contraction in global industrial production. This contraction in industrial activity had a significant impact on both pricing and demand for iron ore and steel products. A combination of reduced prices and lower quantities of sales had a significant impact on the Group's financial results, including a significant decrease in the utilisation rate of the Group's production facilities, a significant decline in revenues for the Group beginning in the fourth quarter of 2008, the recognition of RUB 21.4 billion in impairment losses at the end of 2008. In addition, the strengthening of the U.S. dollar against the rouble in the fourth quarter of 2008 and the first quarter of 2009 (a symptom of global economic uncertainty) resulted in foreign exchange losses, due to the fact that a large portion of the Group's borrowings are denominated in U.S. dollars. See "—Foreign Currency Fluctuations".

Towards the end of 2009, global trade began to recover, led primarily by activity in Asia. A significant increase in prices for iron ore together with increasing demand for steel products has resulted in improved revenues for 2010 as compared to 2009. The growth of certain parts of the global economy, in particular, China, during this period has resulted in increased demand for, and spending on, items such as homes and automobiles. This, in turn, has contributed to a recovery in demand for, and prices of, steel products used in the construction and automotive industries and the raw materials (including iron ore) and energy needed to produce steel.

Effects of Russian Economic Conditions

In addition to the effect of global economic conditions, the Group is especially sensitive to the Russian economic environment, as a major portion of the Group's business is based in Russia, and the Group generates a significant

portion of its revenues in Russia, with 41%, 34%, 40% and 34% of its total revenue being generated from such sales in 2008, 2009, 2010, and the three months ended 31 March 2011, respectively. In addition to global economic conditions, the Russian economic environment is influenced by, among other factors, the effects of the policies adopted by the Russian government. These have, and future policy changes could have, a significant effect on the Group's results of operations and financial condition. Russian macroeconomic trends, such as the rate of GDP growth, overall economic growth, the rate of growth in the particular markets in which the Group's customers operate (in particular the automotive and construction industries), and inflation have significantly influenced the Group's performance and can be expected to continue to do so in the future. The table below sets forth certain key macroeconomic indicators relating to the Russian economy for the years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	**2009**	**2010**
GDP growth[(1)]	5.6%	(7.9)%	4%
Consumer price index[(1)]	13.3%	8.8%	8.8%
Per capita steel consumption in Russia[(2)]	289 kilograms	199 kilograms	261 kilograms
Tubes and pipes production[(3)]	(10.7)%	(14.4)%	35.3%
Automotive industry growth[(4)]	7.8%	(59.5)%	93.6%

(1) *Source: Federal State Statistics Service*

(2) *Source: Worldsteel, CRU*

(3) *Source: Chermet*

(4) *Source: OICA/BMI*

In 2010, the Russian economy experienced a moderate recovery in economic growth, which, as noted above, somewhat preceded the recovery in western economies, resulting in an increase in the Group's sales within Russia as a percentage of total sales, while allowing the Group to return to full production. The exchange rate of the rouble also stabilised against major foreign currencies which contributed to the Group's improved results of operations in 2010.

Demand for and Pricing of Iron Ore and Steel Products

Because the Group's iron ore products are predominantly used for making steel, the global and local demand for steel affects demand for, and pricing of, the Group's iron ore products and, therefore, affects the Group's revenues derived from mining. Demand for steel and steel prices also impact the Group's revenues directly in terms of the prices it is able to charge for its steel products and the volume of steel products it can sell. At the segmental level, because of the significant iron ore product sales between the Mining Segment and the Steel Segment, iron ore prices affect both the revenue generated by the Mining Segment as well as the cost of sales of the Steel Segment.

Iron Ore Pricing

The global iron ore industry is characterised by a high degree of consolidation with BHP Billiton, Vale and Rio Tinto accounting for 27% of world iron ore production and approximately 56% of total seaborne trade in 2010. Iron ore prices increased significantly between 2006 and 2008; the Hamersley fines price (given by Rio Tinto for their Australian ore sales), for example, exhibited a 99% increase over this period. The increase was driven by increased demand from China, following a period of underinvestment in the iron ore mining due to prolonged low prices prior to 2006. This led to a very tight market and enabled iron ore miners to push through larger price increases each year.

Iron ore prices collapsed as a result of the global financial crisis, which depressed steel demand due to the resulting reduction in spending and fixed asset investment in virtually all economies globally. This reduction led to a significant drop in iron ore prices: the price of Hamersley fines dropped by 33%, whilst lump ore and pellet prices (which are higher value products) dropped by 45% and 48%, respectively.

Historically, the price of iron ore was set at four benchmark locations on an annual basis, usually in April. In recent years, due to the high demand for iron ore by the steel industry, a spot market has developed. Spot prices now tend to dictate the level of the benchmark settlement and have led, in some markets for some products, to

quarterly pricing settlements. As the global economy recovered in late 2009 and 2010, the spot price for iron ore increased leading to an increase of around 90% in the contract price for the April-June quarter of 2010 from the previous quarter. Since this time, spot prices into China for 63.5% Fe material have traded at historically high average monthly prices, ranging U.S.$123/tonne to U.S.$197/tonne, according to CRU. For the April to June 2011 quarter spot prices into China averaged U.S.$184/tonne according to CRU, the same average achieved on the previous quarter.

For iron ore products sold in Russia, the Group charges prices in roubles, and for iron ore products sold outside Russia, the Group charges prices in U.S. dollars (and, to a lesser extent, in euro). The following table sets forth the average prices in roubles for the portion of the Group's principal iron ore products sold externally in Russia in 2008, 2009, 2010 and the first three months ended 31 March 2011:

	Year ended 31 December			Three months ended 31 March
	2008	2009	2010	2011
	(RUB per tonne)			
Sintering ore	976	686	1,142	1,600
Blast furnace ore	705	551	1,099	1,360
Ordinary iron ore concentrate	1,934	1,228	2,410	3,158
Iron ore pellets	2,626	1,602	3,177	4,299
HBI	5,551	5,468	10,160	11,902

The following table sets forth the average prices in U.S. dollars for the portion of the Group's principal iron ore products sold internationally in 2008, 2009, 2010 and the first three months ended 31 March 2011:

	Year ended 31 December			Three months ended 31 March
	2008	2009	2010	2011
	*(U.S.$ per tonne)**			
Ordinary iron ore concentrate	67.47	25.06	74.68	90.06
Iron ore pellets	102.37	37.53	94.87	112.19
HBI	400.30	188.37	312.75	396.71

* The averages in this table for the Group's export prices presented in U.S. dollars are based on the U.S. dollar prices charged by the Group in export sales.

Steel Pricing

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

The steel products market is highly competitive and pricing for the Steel Segment's products is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Prices and margins for high value-added steel tend to be higher than for low-grade steel due to the unique structural/chemical characteristics of high value-added steel which end users, such as the automotive industry, typically require. Given the high cost of transporting steel, the Steel Segment exports the majority of its steel products to regional consumers, including nearby European and CIS countries.

Steel prices have been gradually increasing since the second half of 2009 and rose sharply in the first half of 2010. Steel prices decreased in subsequent months, but resumed their rise from the end of 2010.

On the basis of the cash margin of domestic non-integrated steel producers, management believes there is a possibility of a correction of steel prices in the Russian market, considering that the cash margin of domestic non-integrated steel producers has almost approached a two-year peak level following the 25-30% increase in steel prices during the first quarter of 2011.

For steel products sold in Russia, the Group charges prices in roubles, and for steel products sold outside Russia, the Group charges prices in U.S. dollars (and to a lesser extent in euro). The following table sets forth the average prices in roubles for the portion of the Group's principal steel products sold externally in Russia in 2008, 2009, 2010 and the first three months ended 31 March 2011:

	Year ended 31 December			Three months ended 31 March
	2008	2009	2010	2011
	(RUB per tonne)			
Pig Iron	15,862	8,361	12,186	14,873
Billets	18,826	11,124	14,896	17,429
Rolled Steel—Long products	23,418	14,293	19,597	23,077
Rolled Steel—Flat products	24,838	19,442	22,856	26,021

The following table sets forth the average prices in U.S. dollars for the portion of the Group's principal steel products sold internationally in 2008, 2009, 2010 and the first three months ended 31 March 2011:

	Year ended 31 December			Three months ended 31 March
	2008	2009	2010	2011
	*(U.S.$ per tonne)**			
Pig Iron	450.19	233.58	362.89	433.39
Billets	615.59	322.21	443.76	563.00
Rolled Steel—Long products	991.28	501.93	657.55	822.77
Rolled Steel—Flat products	897.17	516.17	713.31	805.44

* The averages in this table for the Group's export prices presented in U.S. dollars are based on the U.S. dollar prices charged by the Group in export sales.

Cost of Sales and Operating Costs

The Group's major costs in 2010 and in the first three months ended 31 March 2011 are detailed in the table below:

	Year ended 31 December 2010		Three months ended 31 March 2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Materials and components	55,735	25.4	16,962	24.0
Energy costs	20,353	9.3	6,433	9.1
Labour costs	16,873	7.7	4,481	6.3
Other costs	17,425	7.9	4,698	6.6

The Group requires substantial amounts of raw materials in the steel production process, in particular iron ore, coking coal and scrap. In general, prices for these raw materials declined during the global economic downturn, but largely recovered by the end of 2010. Management expects prices for iron ore, coking coal and scrap to continue to increase for the remainder of 2011, attributable in part to increased consumption of raw materials by the Russian steel industry (although as a vertically integrated producer, increased iron ore prices do not materially impact the Group on a consolidated basis).

The Group also consumes large volumes of electricity and natural gas, which in Russia are largely supplied by local or regional monopoly providers (although the wholesale electricity market was liberalised from 1 January 2011). During the period covered by this discussion and analysis, natural gas and electricity tariffs have been generally increasing. In addition, as described further below, railway transport is subject to extensive tariff regulation, and the Group is, in part, dependent on the state-owned railways for delivery of both raw materials and products. See "Risk Factors—Risks Related to the Mining and Steel Industries and the Group's Business—Any change in the prices or supply of raw materials and other costs of production could cause the Group's financial results to vary".

At present, a significant part of the Group's product shipments to customers are transported by rail. The Group's iron ore and steel products are sold under either free carrier ("**FCA**"), delivery at frontier ("**DAF**"), cost and

freight ("**CFR**"), free on board ("**FOB**"), cost, insurance and freight ("**CIF**") and carriage paid to a named point of destination ("**CPT**") terms (whereby delivery of the Group's products is to the named carrier, or to port or the border, respectively). The Group relies on the freight rail network operated by Russian Railways, a state-controlled company, for the distribution of its products to customers within Russia and to the Russian seaports. The Russian government sets rail tariffs, which have been increasing in recent years, and may further increase these tariffs, which could significantly increase the Group's transportation costs. In addition, portions of the Russian railway sector have been and are continuing to be reorganised and privatised, which could result in tariffs increasing further. The Group operates its own rolling stock, which partially mitigates its dependence on availability of vacant railway cars at Russian Railways. In 2010, approximately 30% of the Group's products were transported to customers using railway cars owned by the Group. Management expects to increase the volume of products transported by its own railway cars during next two to three years.

In addition to increasing raw materials, electricity and natural gas prices, as well as transportation costs, rising wage costs in Russia have added to the costs of the Group's Russian operations over the period under review.

Modernisation and Investment Programme

The Group is undertaking an extensive modernisation and investment programme that includes upgrading and replacing the equipment of the Mining Segment and the Steel Segment over the next five years to expand and improve their operations. See "—Liquidity and Capital Resources—Capital Expenditures", "Business—Mining Division—Modernisation and Investment Programme" and "Business—Steel Division—Modernisation and Investment Programme". Management expects that the successful completion of the modernisation and investment programme will continue to shift the Group's product mix toward a greater proportion of high value added products, emphasising its competitive advantage in the production of HBI, other value-added iron ore products such as pellets and high-grade concentrate and niche steel products. The amount of the Group's future capital expenditures will depend on a number of factors, including general economic conditions, growth prospects and any acquisitions or disposals the Group may make. Individual projects under the Group's modernisation and improvement programme require the approval of the Board of Directors prior to final budgeting and consummation of the project.

In 2010, the Group invested RUB 12.4 billion in capital expenditures, as compared to RUB 9.75 billion in 2009 and RUB 24.95 billion in 2008. Expenditures in 2009 were more heavily weighted towards maintenance and modernisation projects than in 2008, in which expenditures were more focused on growth and investment projects. The total budgeted expenditures of the programme projected for 2011 is RUB 14.3 billion, of which RUB 5.1 billion has been spent as at 31 March 2011. Capital expenditure plans are subject to change depending, among other things, on the development of market conditions and the cost and availability of funds.

Foreign Currency Fluctuations

The Group's results of operations have been significantly impacted during the period under review by exchange rate fluctuations on the Group's borrowings in currencies other than the rouble. Because a considerable portion of the Group's bank borrowings is denominated in U.S. dollars, the Group benefited in the first half of 2008 and in the second half of 2009 from the declining value of the U.S. dollar against the rouble. However, from the third quarter of 2008 to the first quarter of 2009, the sharp increase in the value of the U.S. dollar against the rouble resulted in the Group recognising foreign exchange losses from borrowings of RUB 10.8 billion in the year ended 31 December 2008 and RUB 520 million in the year ended 31 December 2009 (the strengthening of the rouble from in the latter half of 2009 largely offset the losses incurred in the first half of 2009). The Group's results of operations for the whole of 2010 were not materially impacted by fluctuations in the exchange rate due to the relative stability of the rouble during this period, although strengthening of the rouble in the three months ended 31 March 2011 resulted in a RUB 947 million foreign exchange gain from borrowings (Q1 2010: RUB 2.7 billion gain). See "Exchange Rate Information".

In addition, the majority of the Group's operations are based in Russia and its costs are generally denominated in roubles while its export sales are denominated in foreign currencies (primarily U.S. dollars and euro). The mix in the Group's revenues and costs is such that appreciation of the rouble against the U.S. dollar generally results in an increase of the Group's costs relative to its revenues, while depreciation of the rouble against the U.S. dollar results in a decrease of the Group's costs relative to its revenues, which serves in part to offset foreign exchange losses arising from the Group's U.S. dollar denominated indebtedness described above.

During the first half of 2008, the effects of appreciation of the rouble against the U.S. dollar were partially offset by increased margins for the Group's iron ore and steel products. The rouble depreciated sharply against the

U.S. dollar in the third quarter of 2008. The effect on recognised revenues of this depreciation was offset during the period by the effect of falling prices for the Group's products. From March 2009 to the end of 2009 the rouble appreciated against the U.S. dollar, which resulted in a decrease in reported rouble revenues for the Group's U.S. dollar-denominated sales. The year ended 31 December 2010 was characterised by relative stability in the foreign exchange rate of the two currencies, although the U.S. dollar depreciated slightly during the first half of 2011. See "Selected Financial Information".

The Group does not enter into foreign currency hedging contracts to manage its exposure to fluctuations in foreign exchange rates. For information on foreign currency exchange rate risks, see "Risk Factors—Risks Related to the Mining and Steel Industries and the Group's Business—The Group may incur losses as the result of fluctuations in the foreign currency exchange rates of the rouble, the U.S. dollar or the euro" and "—Quantitative and Qualitative Disclosure About Market Risk—Foreign Exchange Risk".

Acquisitions and Disposals

The Group has pursued and intends to continue to pursue selected strategic acquisitions opportunities to secure its raw materials supply, increase its holdings in the iron ore and steel industries or to invest in attractive geographic markets and complimentary industries. Such acquisitions in the past have had and, should they be pursued in the future, would likely have, a significant effect on the Group's financial condition and results of operations, by increasing the Group's funding requirements, extending the Group's asset base and depreciation charge, as well as affecting the Group's sales, cost of sales, operating costs and margins. See "Risk Factors—Risks Related to the Group's Business and the Mining and Steel Industries—The Group has grown rapidly in recent years and intends to pursue opportunities to grow its operations through further acquisitions, but there can be no assurance that the Group will be able to successfully integrate such acquired companies, identify suitable acquisition targets or acquire them on satisfactory terms". The inclusion of acquired businesses in the financial statements of the Group in the future may impact the comparability of its results across financial reporting periods.

Norilsk Nickel

In March 2011, the Group entered into an agreement to acquire 75,240,247 American depositary receipts ("**ADRs**") representing an interest of approximately 4.0% in OJSC "MMC Norilsk Nickel" for a total consideration of U.S.$2.2 billion. These ADRs were acquired by the Group in May and June 2011.

The investment is designed to provide the Group with a measure of diversification, to give the Group the option to benefit from potential consolidation in the Russian metal & mining sector, and to provide a periodic dividend stream, whilst providing a liquid and monetisable investment.

Changes in the fair value of this investment will be reflected in the Group's statement of comprehensive income.

Sladkovsko-Zarechnoe Oil and Gas Field

Sladkovsko-Zarechnoe oil and gas field, acquired in August 2008 for consideration of RUB 2,380 million, is a prospective natural gas and oil deposit, which is located in the Orenburg region of the Russian Federation (south of the Ural mountains) with convenient access to infrastructure and transportation. As at 31 March 2008, DeGolyer and MacNaughton reported that the Sladkovsko-Zarechnoe license block had potential resources (mean estimate) in the amount of 323.2 million barrels of oil equivalent, including 54.6 million barrels of crude oil, 1,125 billion cubic feet of natural gas and 68.4 million barrels of condensate. The Group views this deposit as an opportunity to hedge the Group's exposure to increases in the cost of natural gas used in HBI/DRI production. In the alternative, the Group is also considering the sale or spin-off of the field.

Udokan Copper Deposit

In September 2008, MGOK won a competitive tender process to develop the Udokan copper deposit and paid RUB 15 billion. In accordance with the terms of the licence granted, the Group has to comply with the following commitments:

- agree the technical project for the copper deposit development with Russian authorities by December 2011;
- begin construction of production facilities by November 2012;

- begin extraction of copper ore by May 2014; and
- complete the construction of mining and processing facilities and attain estimated production capacity by May 2016.

The Group is currently undertaking a technical feasibility study. Although any estimates regarding the required capital expenditures for the development of the deposit are not yet final, such amounts would be material to the Group. The Group is considering a variety of funding options, including equity, debt, a combination of equity and debt, project finance and other types of financing. The Group may also spin off the asset or otherwise transfer the license outside of the Group.

FMC

In August 2008, the Group acquired a 100% interest in FMC, an iron ore and steel products trader registered in Gibraltar, from its shareholder and related parties for a cash consideration of RUB 17,584 million. FMC, which purchases iron ore and steel products from the Group for export, has been consolidated into the Group as the primary trading arm for the Group's exported shipments of iron ore and steel products. The acquired business contributed revenues of RUB 36,959 million and a net loss of RUB 642 million into the Group for the period from the acquisition to 31 December 2008. The net loss from the acquired business reflects the deteriorating economic situation in the metals industry in the fourth quarter of 2008.

As a result of the consolidation of FMC in the 2009 Financial Statements, sales that were shown until 1 August 2008 as being made to FMC are shown from that date as being made directly to the purchasing party by the Trading Segment. As a result, the majority of the Group's export revenues after 1 August 2008 are generated by the Trading Segment. The consolidation of FMC had the additional effect of increasing the transportation costs and interest costs of the Group, as these costs had been borne by FMC as a separate entity prior to consolidation.

RECENT DEVELOPMENTS AND OUTLOOK

Operational Outlook

Since 31 March 2011, the Group has continued to perform in line with management's expectations. Overall, the Group has continued throughout the second quarter of 2011 to experience growth in sales, due primarily to continuing increases in spot prices for iron ore and steel products. In general, production levels have continued to remain relatively stable in the second quarter of 2011, compared to the second quarter of 2010, with production facilities operating at or near full installed capacity during both periods.

Acqusitions

In addition to the acquisition of an interest in Norilsk Nickel as described in "—Significant Factors Affecting the Group's Results of Operations—Acquisitions and Disposals—Norilsk Nickel" the Group has entered into and is considering other acquisitions.

LebGOK-DSF and Dorstroymaterialy

The Group expects to enter into an agreement with a related party to acquire the controlling stakes in the companies "LebGOK-DSF" and "Dorstroymaterialy" for a total consideration of approximately U.S.$200 million. The companies own and operate the rock waste processing facilities and produce more than 4 million tonnes of crushed stones, widely used in road construction, from the LGOK rock overburden. Management believes that the transaction will provide LGOK with additional business lines, diversifying the Group's customer focus across different industries, and enhancing LGOK's prospects and potential earnings.

Moldovan Steel Works

The Group is also considering the acquisition from a related party of an indirect majority interest in Moldova Steel Works, a steel plant located in the Pridnestrovian Moldavian Republic (a self-proclaimed state located in the territory of the Republic of Moldova), with an annual capacity of approximately 1 million tonnes of rolled steel. Any such acquisition would be made on an arm's length basis following corporate approvals.

Pre-export Finance Facility

On 4 April 2011, two wholly-owned subsidiaries of Metalloinvest Holding Company, LGOK and OEMK, entered into a U.S.$3.1 billion credit facility (the "**PXF Facility**") with, among others, Deutsche Bank AG, Amsterdam Branch as agent, security trustee and fixed rate agent for, among others, general corporate purposes and the repayment of outstanding amounts under the facility agreement dated 16 July 2008 (as amended) between LGOK and OEMK as borrowers and Deutsche Bank AG, Amsterdam Branch as agent and security trustee, and others.

The PXF Facility accrues interest at a fixed rate calculated by the fixed rate agent according the terms of the PXF Facility.

As at the date of this Prospectus, the PXF Facility was fully drawn, with the proceeds used to repay the U.S.$1.07 billion outstanding at 31 March 2011 under its July 2008 syndicated pre-export financing facility, with the remaining portion being used in connection with the acquisition of the Group's interest in Norilsk Nickel.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2011 AND 2010

The following table sets forth the Group's consolidated comprehensive income data for the three months ended 31 March 2010 and 2011:

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Sales	44,406	100.0	70,740	100.0
Cost of sales	(27,154)	61.1	(32,574)	46.0
Gross profit	**17,252**	**38.9**	**38,166**	**54.0**
Distribution expenses	(6,815)	15.3	(11,493)	16.2
General and administrative expenses	(2,305)	5.2	(2,878)	4.1
Gain on initial recognition of derivative financial instruments	—	—	2,324	3.3
Other operating expenses—net	(515)	1.2	(802)	1.1
Operating profit	**7,617**	**17.2**	**25,317**	**35.8**
Finance income	346	0.8	91	0.1
Finance costs	(3,559)	8.0	(2,489)	3.5
Foreign exchange gain from borrowings	2,678	6.0	947	1.3
Share of net profit/(loss) of associates	(27)	0.1	5	0.0
Profit before income tax	**7,055**	**15.9**	**23,871**	**33.7**
Income tax charge	(2,131)	4.8	(5,212)	7.4
Profit for the period	**4,924**	**11.1**	**18,659**	**26.4**
Total comprehensive income for the period	**4,676**	**10.5**	**20,271**	**28.7**
Management EBITDA	**11,537**	**26.0**	**26,923**	**38.1**

Sales

Sales were RUB 70,740 million in three months ended 31 March 2011, an increase of RUB 26,334 million, or 59.3%, from RUB 44,406 million in three months ended 31 March 2010. The increase in sales in three months ended 31 March 2011 compared to the corresponding period in 2010 was primarily due to a significant increase in market demand (see "—Significant Factors Affecting the Group's Results of Operations") leading to continued increase in market prices and accordingly, the prices the Group was able to charge for its iron ore and steel products. This increase in Group sales in the three months ended 31 March 2011 was slightly offset by foreign currency exchange losses as a result of minor depreciation of the U.S. dollar against the rouble in the first quarter of 2011, as export sales were denominated mainly in U.S. dollars.

Segments

The following table presents the Group's consolidated sales by segment for the three months ended 31 March 2010 and 2011:

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Mining				
External revenue	9,185	20.7	10,247	14.5
Inter-segment revenue	9,690	21.8	23,926	33.8
Total	18,875	42.5	34,173	48.3
Steel				
External revenue	14,021	31.6	20,123	28.4
Inter-segment revenue	10,008	22.5	13,214	18.7
Total	24,029	54.1	33,337	47.1
Trading				
External revenue	20,566	46.3	37,865	53.5
Inter-segment revenue	721	1.6	1,929	2.7
Total	21,287	47.9	39,794	56.2
Transportation				
External revenue	581	1.4	565	0.8
Inter-segment revenue	3,305	7.4	3,738	5.3
Total	3,886	8.8	4,303	6.1
All other Segments				
External revenue	53	0.1	1,940	2.7
Inter-segment revenue	20	0.1	15	0.1
Total	73	0.2	1,955	2.8
Eliminations	*(23,744)*	*(53.5)*	*(42,822)*	*(60.5)*
Total external sales	**44,406**	**100.0**	**70,740**	**100.0**

Mining Segment

The Mining Segment represents the production and sale of iron ore products. Total external Mining Segment sales were RUB 10,247 million in the three months ended 31 March 2011, an increase of RUB 1,062 million, or 11.6%, from RUB 9,185 million in the corresponding period in 2010 due to a significant increase in prices and increase in demand for iron ore products as a consequence of the global economic recovery.

The following table presents the Group's total external sales for mining products for the three months ended 31 March 2010 and 2011:

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Total external Mining Segment sales	9,185	54.3	10,247	29.6
Total external Trading Segment sales of mining products	7,735	45.7	24,343	70.4
Total external sales of mining products	**16,920**	**100.0**	**34,590**	**100.0**

The Mining Segment's product mix remained relatively constant in three months ended 31 March 2011, due primarily to the prevalence of long-term sales contracts, which set forth specific product deliveries with respect

to the relevant customer. For information on mining product output, see "Business—Mining Division—Overview". The overall increase in Mining Segment sales was slightly offset by foreign currency exchange losses as a result of minor depreciation of the U.S. dollar against the rouble in the three months ended 31 March 2011 compared to 2010, as export sales were denominated mainly in U.S. dollars.

Steel Segment

The Steel Segment represents the production and sale of ferrous metals, and comprises OEMK, Ural Steel and Ural Scrap Company. Total external Steel Segment sales were RUB 20,123 million in the 2011 period, an increase of 43.5% from RUB 14,021 million in the corresponding period in 2010. Overall, Steel Segment sales increased in the first quarter 2011 compared to the first quarter 2010 due primarily to higher prices as a consequence of the global economic recovery.

The following table presents the Group's total external sales for steel products for the three months ended 31 March 2010 and 2011:

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Total external Steel Segment sales	14,021	49.7	20,123	60.0
Total external Trading Segment sales of steel products	14,206	50.3	13,429	40.0
Total external sales of steel products	**28,227**	**100.0**	**33,552**	**100.0**

The Steel Segment's product mix shifted towards higher margin products in the three months ended 31 March 2011 period as compared to the corresponding period in 2010. For information on steel product output, see "Business—Steel Division—Overview". See "—Significant Factors Affecting the Group's Results of Operations—Demand for and Pricing of Iron Ore and Steel Products".

The overall increase in Steel Segment sales was slightly offset by foreign currency exchange losses as a result of minor depreciation of the U.S. dollar against the rouble in the first quarter 2011, as export sales were denominated mainly in U.S. dollars.

Trading Segment

Trading Segment external sales were RUB 37,865 million in the three months ended 31 March 2011, an increase of RUB 17,299 million, or 84.1% from RUB 20,566 million in the corresponding period in 2010. Trading Segment sales increased in the three months ended 31 March 2011 compared to the corresponding period in 2010 period, in line with a common trend for recovery on the global markets and increase of prices for products produced by Mining and Steel Segments of the Group.

Transportation Segment

Transportation Segment external sales were RUB 565 million in the three months ended 31 March 2011, a minor decrease of RUB 16 million, or 2.8% from RUB 581 million in the corresponding period in 2010, representing slightly decreased third-party use of the Group's transportation assets as a result of lower capacity.

All other Segments

All other Segments external sales were RUB 1,940 million in the three months ended 31 March 2011, an increase of RUB 1,887 million from RUB 53 million in the corresponding period in 2010. All other Segments sales increased in three months ended 31 March 2011 compared to the corresponding period in 2010, due primarily to sales generated by Hamriyah Steel Plant of RUB 1,871 million. The Group completed construction of Hamriyah Steel at the end of 2010, accordingly, no sales were generated by Hamriyah Steel till the end of 2010.

Sales by Geographic Location

The following table presents the Group's total sales to Russian and to international customers for the three months ended 31 March 2010 and 2011, including as a percentage of external sales:

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Russia	18,801	42.3	24,326	34.4
Other countries	25,605	57.7	46,414	65.6
Total	**44,406**	**100.0**	**70,740**	**100.0**

Sales to customers in Russia increased by RUB 5,525 million to RUB 24,326 million in the three months ended 31 March 2011, or 29.4%, from RUB 18,801 million in the corresponding period in 2010 due to the increase in market prices. Sales to customers in Russia decreased as percentage of total sales to 34.4% in three months ended 31 March 2011 from 42.3% in the 2010 period due to a decrease in domestic sales of iron ore products of the Group in proportion to foreign sales, as the foreign sales prices exceeded domestic prices in 2011.

Sales by End Product and Service

The following table sets forth the breakdown of the Group's sales by end product and service to external customers for the three months ended 31 March 2010 and 2011, including as a percentage of total sales:

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions, except %)		*(RUB millions)*	*(%)*
Steel and rolled products	23,794	53.6	30,178	42.7
Iron ore pellets	8,759	19.7	17,232	24.4
Iron ore	4,225	9.5	9,890	14.0
HBI	3,952	8.9	7,409	10.5
Pig iron	2,032	4.6	4,046	5.7
Transportation services	548	1.2	538	0.8
Scrap metal	69	0.2	84	0.1
Other revenue	1,027	2.3	1,363	1.8
Total	**44,406**	**100.0**	**70,740**	**100.0**

Overall, sales by end product and service increased in the three months ended 31 March 2011 compared to the corresponding period in 2010 on an absolute basis on the back of the global economic recovery, although sales of iron ore, iron ore pellets and HBI increased as a percentage of total sales, reflecting larger price increases compared to the price increases achieved by the Group's steel prices due to the dynamics of iron ore pricing relative to steel pricing. See "Industry Overview".

Cost of Sales

Cost of sales was RUB 32,574 million in the three months ended 31 March 2011, an increase of RUB 5,420 million, or 20%, from RUB 27,154 million in the corresponding period in 2010. The following table sets forth a breakdown of the Group's cost of sales for the years ended 31 March 2011 and 2010, including as a percentage of total sales.

	Three months ended 31 March			
	2010		2011	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Cost of sales	**27,154**	**61.1**	**32,574**	**46.0**
Materials and components	12,772	28.8	16,962	24.0
Energy costs	5,562	12.5	6,433	9.1
Labour costs	4,142	9.3	4,481	6.3
Depreciation and amortisation	2,381	5.4	2,532	3.6
Amortisation of mineral rights	512	1.1	512	0.7
Land, property and other taxes	576	1.3	699	1.0
Repairs and maintenance	155	0.3	106	0.1
Other	1,054	2.4	849	1.2

The overall increase in cost of sales for the three months ended 31 March 2011 compared to the corresponding period in 2010 was primarily due to increases in materials and components costs and, to a lesser extent, an increase in production volumes. Although cost of sales increased in absolute terms in three months ended 31 March 2011 compared to the corresponding period in 2010, cost of sales decreased as a percentage of total sales, to 46% in three months ended 31 March 2011 from 61.1% in the corresponding period in 2010, due primarily to the growth of selling prices for finished iron and steel products outstripping the increases in purchase prices for raw materials and components and implementation of efficiency programmes aimed to reduce production costs.

Materials and components costs increased primarily due to an increase in prices for raw materials used in the mining and steel production processes, with prices for raw materials in the three months ended 31 March 2011 approximately 22% above their 2010 levels.

Energy costs increased primarily due to an increase in tariffs related to energy usage and prices for natural gas.

Labour costs increased in the three months ended 31 March 2011 as compared to the corresponding period in 2010 due to an increase of wages and salaries in the second half of 2010. The number of employees in both the Mining and Steel Segments remained relatively constant in the three months ended 31 March 2011 compared to the corresponding period in 2010.

Depreciation and amortisation in the three months ended 31 March 2011 was comparable to the 2010 period, as well as capital repairs and maintenance.

Distribution Expenses

Distribution expenses include transportation expenses, packing materials, labour costs (relating primarily to employees involved in sales, distribution and transport activities), custom duties, marketing research, and other expenses. Distribution expenses were RUB 11,493 million in the three months ended 31 March 2011, an increase of RUB 4,678 million, or 68.6%, from RUB 6,815 million in the corresponding period in 2010.

As a percentage of the Group's total sales, distribution expenses remained relatively constant, at 16.2% in the three months ended 31 March 2011 from 15.3% in the corresponding period in 2010.

Rail tariffs increased by 8% in the three months ended 31 March 2011 over the corresponding period in 2010, causing the cost of distribution of the Group's products by rail throughout Russia to increase. Moreover, following the reorganisation of part of its operations, Russian Railways transferred its fleet of railway cars to independent commercial carriers, who in turn set higher charges for use of railway cars in transportation of the Group's products. Distribution expenses also increased due to significantly increased shipments to China on a CFR basis in the three months ended 31 March 2011 compared to the corresponding period in 2010.

General and Administrative Expenses

General and administrative expenses were RUB 2,878 million in the three months ended 31 March 2011, an increase of RUB 573 million, or 24.9%, from RUB 2,305 million in the corresponding period in 2010. The increase in general and administrative expenses was primarily due to increased labour costs relating primarily to increased salaries, which became effective in the second half of 2010.

Other Operating Expenses—Net

Other operating expenses net of other operating income were an expense of RUB 802 million in the three months ended 31 March 2011, an increase of RUB 287 million, or 55.7%, from an expense of RUB 515 million in the corresponding period in 2010 due to an increase in foreign exchange loss on operating activities and increased charity expenses. As a percentage of total sales, other operating expenses—net was 1.1% in three months ended 31 March 2011 which is comparable to the corresponding period in 2010.

Operating Profit

Operating profit was RUB 25,317 million in the three months ended 31 March 2011, an increase of RUB 17,700 million, or 232.4%, from RUB 7,617 million in the corresponding period in 2010. As a percentage of total sales, operating profit increased to 35.8% in three months ended 31 March 2011 from 17.2% in the corresponding period in 2010.

Finance Income

Finance income comprises interest income and was RUB 91 million in the three months ended 31 March 2011, a decrease of RUB 255 million, or 73.7%, from RUB 346 million in the corresponding period in 2010. The decrease in finance income was primarily due to repayment of a substantial part of certain loans issued to related parties in 2010. See "Material Contracts and Related Party Transactions—Related Party Transactions—Loans Advanced to Related Parties".

Finance Costs

Finance costs were RUB 2,489 million in the three months ended 31 March 2011, a decrease of RUB 1,070 million, or 30.1%, from RUB 3,559 million in the corresponding period in 2010. As a percentage of total sales, finance costs decreased to 3.5% in the three months ended 31 March 2011 from 8.0% in the corresponding period in 2010. The decrease in finance costs was primarily due to a decrease of total borrowings and lower prevailing interest rates in the three months ended 31 March 2011. See "—Liquidity and Capital Resources—Bank Loans and Credit Facilities".

Foreign Exchange Gain from Borrowings

Foreign exchange gain from borrowings was RUB 947 million in three months ended 31 March 2011, a decrease of RUB 1,731 million, or 64.6%, from RUB 2,678 million in the corresponding period in 2010. This decrease was primarily due to an increase in the first quarter of 2011 in the amount of inter-company loans denominated in roubles to foreign subsidiaries whose functional currency is the U.S. dollar, following appreciation of the rouble against the U.S. dollar, which resulted in foreign exchange gain in profit or loss in the amount of the reduced rouble reported value of the U.S. dollar denominated indebtedness. This gain was compensated by a corresponding loss in other comprehensive income.

Gain on Initial Recognition of Derivative Financial Instruments

In March 2011 the Group entered into an agreement giving the Group the right to acquire 75,240,247 ADRs representing approximately 4.0 per cent interest in OJSC "MMC "Norilsk Nikel" for U.S.$2,200 million. The Group recognised a written call option which can be exercised from 23 March 2011 to 30 September 2011. The Group recognised the fair value of the outstanding call option as an asset and a respective gain on initial recognition of derivative financial instrument of RUB 2,324 million for the three months ended 31 March 2011.

Profit Before Income Tax

Profit before income tax was RUB 23,871 million in the three months ended 31 March 2011, an increase of RUB 16,816 million, or 238.4%, from RUB 7,055 million in the corresponding period in 2010. As a percentage of total sales, profit before income tax increased to 33.7% in the 2011 period from 15.9% in the 2010 period.

Income Tax Charge

Income tax charge was RUB 5,212 million in the three months ended 31 March 2011, an increase of RUB 3,081 million, or 144.6%, from RUB 2,131 million in the corresponding period in 2010. This increase was due primarily to increased profits in the 2011 period. The group's effective tax rate was 21.8% in the three months ended 31 March 2011, compared to 30.2% in the corresponding period in 2010, mainly reflecting the tax treatment of the Group's gain on initial recognition of derivative financial instruments in the three months ended 31 March 2011.

Profit for the Period Attributable to Owners of the Parent

Profit for the period attributable to owners of the Parent was RUB 18,656 million in the three months ended 31 March 2011, an increase of RUB 13,761 million, or 281.1%, from RUB 4,895 million in the corresponding period in 2010.

Management EBITDA

Management EBITDA was RUB 26,923 million in the three months ended 31 March 2011, an increase of RUB 15,386 million, or 133.4%, from RUB 11,537 million in the corresponding period in 2010. For a reconciliation of Management EBITDA to profit before tax for the three months ended 31 March 2011 and 2010, see "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Adjusted EBITDA and Management EBITDA".

Mining Segment Management EBITDA was RUB 21,555 million in the three months ended 31 March 2011, an increase of RUB 13,275 million, or 160.3%, from RUB 8,280 million in the corresponding period in 2010. As a percentage of Group Management EBITDA, Mining Segment Management EBITDA increased to 80.1% in the three months ended 31 March 2011 from 71.8% in the corresponding period in 2010. The absolute increase was due to increased demand, which led to improved pricing, while the proportionate increase was due primarily to the greater proportional improvement in demand and prices for the mining products and resulting disproportionately increased margins in the Mining Segment in the three months ended 31 March 2011.

Steel Segment Management EBITDA was RUB 4,597 million in the three months ended 31 March 2011, an increase of RUB 1,983 million, or 75.9%, from RUB 2,614 million in the corresponding period in 2010. As a percentage of Group Management EBITDA, Steel Segment Management EBITDA decreased to 17.1% in the 2011 period from 22.7% in the 2010 period. The absolute increase was due primarily to increase in prices charged for steel products and an increased share of value-added products in the three months ended 31 March 2011.

Trading Segment Management EBITDA was RUB 463 million in the three months ended 31 March 2011, compared to RUB 107 million in the corresponding period in 2010. As a percentage of Group Management EBITDA, Trading Segment Management EBITDA was 1.7% in the three months ended 31 March 2011, compared to 0.9% in the 2010 period. The increase in the Trading Segment's Management EBITDA was due primarily to an increase in the prices and volumes of the Mining and Steel Segments' products.

Transportation Segment Management EBITDA was RUB 852 million in the three months ended 31 March 2011, compared to RUB 948 million in corresponding period in 2010. As a percentage of Group Management EBITDA, Transportation Segment Management EBITDA was 3.2% in the three months ended 31 March 2011, compared to 8.2% in 2010 period. Transportation Segment Management EBITDA remained relatively constant on an absolute basis in the three months 2011 compared to the corresponding period in 2010.

All other Segments Management EBITDA was a loss of RUB 544 million in the three months ended 31 March 2011, an increase of RUB 132 million, or 32%, from a loss of RUB 412 million in the corresponding period in 2010.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

The following table sets forth the Group's consolidated comprehensive income data for the years ended 31 December 2009 and 2010:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Sales	150,372	100.0	219,668	100.0
Cost of sales	(93,751)	62.3	(110,386)	50.3
Gross profit	**56,621**	**37.7**	**109,282**	**49.7**
Distribution expenses	(32,402)	21.5	(33,060)	15.0
General and administrative expenses	(8,729)	5.8	(10,846)	4.9
Other operating income/(expenses)—net	339	0.2	(2,710)	1.2
Operating profit	**15,829**	**10.5**	**62,666**	**28.5**
Finance income	2,367	1.6	880	0.4
Finance costs	(14,632)	9.7	(14,767)	6.7
Foreign exchange (loss)/gain from borrowings	(520)	0.3	216	0.1
Gain on extinguishment of financial liability	12,765	8.5	—	—
Share of net loss of associates	(158)	0.1	(221)	0.1
Profit before income tax	**15,651**	**10.4**	**48,774**	**22.2**
Income tax charge	(1,735)	1.2	(12,340)	5.6
Profit for the period	**13,916**	**9.3**	**36,434**	**16.6**
Total comprehensive income for the period	**13,813**	**9.2**	**35,711**	**16.3**
Management EBITDA	**26,612**	**17.7**	**78,595**	**35.8**

Sales

Sales were RUB 219,668 million in 2010, an increase of RUB 69,296 million, or 46.1%, from RUB 150,372 million in 2009. The increase in sales in 2010 compared to 2009 was primarily due to a significant increase in market demand, resulting in an increase in prices from the second quarter of 2009 and, to a lesser extent, increased production, primarily at LGOK. The increase in Group sales in 2010 was slightly offset by foreign currency exchange losses as a result of minor depreciation of the U.S. dollar against the rouble in 2010, as export sales were denominated mainly in U.S. dollars.

Segments

The following table presents the Group's consolidated sales by segment for the years ended 31 December 2009 and 2010:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Mining				
External revenue	20,105	13.4	42,460	19.3
Inter-segment revenue	30,936	20.6	63,083	28.7
Total	51,041	34.0	105,543	48.0
Steel				
External revenue	38,679	25.7	65,125	29.6
Inter-segment revenue	42,102	28.0	46,441	21.1
Total	80,781	53.7	111,566	50.7
Trading				
External revenue	89,730	59.7	109,318	49.8
Inter-segment revenue	60	—	4,423	2.0
Total	89,790	59.7	113,741	51.8
Transportation				
External revenue	1,591	1.1	2,432	1.1
Inter-segment revenue	11,399	7.6	17,404	7.9
Total	12,990	8.7	19,836	9.0
All other Segments				
External revenue	267	0.2	333	0.2
Inter-segment revenue	75	—	73	—
Total	342	0.2	406	0.2
Eliminations	*(84,572)*	*(56.3)*	*(131,424)*	*(59.7)*
Total external sales	**150,372**	**100.0**	**219,668**	**100.0**

Mining Segment

Total external Mining Segment sales were RUB 42,460 million in 2010, an increase of RUB 22,355 million, or 111.2%, from RUB 20,105 million in 2009 due to a significant increase in prices and production stemming from increased demand for iron ore products.

The following table presents the Group's total external sales for mining products for the years ended 31 December 2009 and 2010:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Total external Mining Segment sales	20,105	35.4	42,460	41.7
Total external Trading Segment sales of mining products	36,739	64.6	59,316	58.3
Total external sales of mining products	**56,844**	**100.0**	**101,776**	**100.0**

The Mining Segment's product mix remained relatively constant in 2010 compared to 2009, due primarily to the prevalence of long-term sales contracts, which set forth specific product deliveries with respect to the relevant customer. For information on mining product output, see "Business—Mining Division—Overview". The overall increase in Mining Segment sales was slightly offset by foreign currency exchange losses as a result of minor depreciation of the U.S. dollar against the rouble in 2010, as export sales were denominated mainly in U.S. dollars.

Steel Segment

Total external Steel Segment sales were RUB 65,125 million in 2010, an increase of RUB 26,446 million, or 68.4% from RUB 38,679 million in 2009. Overall, Steel Segment sales increased in 2010 compared to 2009 due primarily to higher prices stemming from increased demand as a consequence of the global economic recovery.

The following table presents the Group's total external sales for steel products for the years ended 31 December 2009 and 2010:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Total external Steel Segment sales	38,679	42.2	65,125	56.6
Total external Trading Segment sales of steel products	52,991	57.8	49,953	43.4
Total external sales of steel products	**91,670**	**100.0**	**115,078**	**100.0**

Steel Segment production levels in 2010 did not change significantly compared to 2009. Product mix shifted towards higher margin products in 2010 as compared to 2009. For information on steel product output, see "Business—Steel Division—Overview". See "—Significant Factors Affecting Results of Operations—Demand for and Pricing of Iron Ore and Steel Products".

The overall increase in Steel Segment sales was slightly offset by foreign currency exchange losses as a result of minor depreciation of the U.S. dollar against the rouble in 2010, as export sales were denominated mainly in U.S. dollars.

Trading Segment

Trading Segment external sales were RUB 109,318 million in 2010, an increase of RUB 19,588 million, or 21.8% from RUB 89,730 million in 2009. The increase was in line with a common trend for recovery on the global markets and increase of prices for products produced by Mining and Steel Segments of the Group as described above.

Transportation Segment

Transportation Segment external sales were RUB 2,432 million in 2010, an increase of RUB 841 million, or 52.9% from RUB 1,591 million in 2009. The increase in sales was due to an increase in capacity of railway cars that was used to provide transportation services to third parties and an overall increase of railway tariffs payable to the Group by such third parties.

All other Segments

All other Segments external sales in 2010 were comparable to 2009. As a percentage of Group sales, All other Segments external sales remained relatively constant at 0.2% in 2010 and 2009.

Sales by Geographic Location

The following table presents the Group's total sales to customers within Russia and to customers externally for the years ended 31 December 2009 and 2010, including as a percentage of external sales:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Russia	50,860	33.8	88,411	40.2
Other countries	99,512	66.2	131,257	59.8
Total	**150,372**	**100.0**	**219,668**	**100.0**

Sales to customers in Russia increased by RUB 37,551 million to RUB 88,411 million in 2010, or 73.8%, from RUB 50,860 million in 2009 due primarily to expansions in industrial production and, in particular, the concurrent (and compared to iron ore, disproportionate) increased demand for the Group's steel products in Russia, which resulted in disproportionate increases in domestic market prices, each as a result of the recovery from the global economic downturn. Sales to customers in other countries increased by RUB 31,745 million to RUB 131,257 million, or 31.9% in 2010 compared to 2009, also as a result of increase in market prices due to the recovery of demand globally, led by increased demand in Asia.

Sales by End Product and Service

The following table sets forth the breakdown of the Group's sales by end product and service to external customers for the years ended 31 December 2009 and 2010, including as a percentage of total sales:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Steel and rolled products	82,425	54.8	98,583	44.8
Iron ore pellets	27,279	18.1	50,211	22.9
Iron ore	14,288	9.5	30,069	13.7
HBI	14,304	9.5	21,067	9.6
Pig iron	5,832	3.9	11,606	5.3
Transportation services	1,496	1.0	2,342	1.1
Scrap metal	255	0.2	355	0.2
Other revenue	4,493	3.0	5,435	2.4
Total	**150,372**	**100.0**	**219,668**	**100.0**

Sales of all end products and services increased in 2010 compared to 2009 on an absolute basis on the back of the global economic recovery, leading to an overall increase in prices and a resulting increase in the volumes of products produced. Sales of iron ore, iron ore pellets, HBI and pig iron increased as a percentage of total sales, reflecting larger price increases compared to the price increases achieved by the Group's steel products due to the dynamics of iron ore pricing relative to steel pricing (see "Industry Overview").

Cost of Sales

Cost of sales was RUB 110,386 million in 2010, an increase of RUB 16,635 million, or 17.7%, from RUB 93,751 million in 2009. The following table sets forth a breakdown of the Group's cost of sales for the years ended 31 December 2009 and 2010, including as a percentage of total sales:

	Year ended 31 December			
	2009		2010	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Cost of sales	**93,751**	**62.3**	**110,386**	**50.3**
Materials and components	45,082	30.0	55,735	25.4
Energy costs	16,447	10.9	20,353	9.3
Labour costs	14,745	9.8	16,873	7.7
Depreciation and amortisation	10,027	6.7	9,079	4.1
Amortisation of mineral rights	2,048	1.4	2,048	0.9
Land, property and other taxes	2,213	1.5	2,322	1.1
Repairs and maintenance	600	0.4	740	0.3
Other	2,589	1.6	3,236	1.5

The overall increase in cost of sales in 2010 compared to 2009 was primarily due to increases in materials and components costs. Although cost of sales increased in absolute terms in 2010 compared to 2009, cost of sales decreased as a percentage of total sales, to 50.3% in 2010 from 62.3% in 2009, due primarily to the growth in the prices for finished iron ore and steel products outstripping the price for raw materials and components.

Materials and components costs increased primarily due to increased prices for raw materials used in the mining and steel production processes, with prices for raw materials in 2010 approximately 28.5% above their 2009 levels.

Aside from increased production volumes, energy costs increased primarily due to approximately 11% increase of tariffs related to energy usage and a 28% increase in the average price for natural gas over average 2009 levels. Total energy usage also increased in 2010 as a result of increased production.

The increase in labour costs was driven primarily by a return to a five-day work week in 2010. From 1 January to 1 September 2009, the Group implemented a four-day work week for an average of 55-60% of the Group's total workforce in response to the economic downturn. This increase was offset by further increases in efficiency programmes introduced by the Group in relation to use of personnel. The increase in labour costs was also due in part to 10% increase of wages and salaries in the second half of 2010. The number of employees in both the Mining and Steel Segments remained relatively constant in 2010 compared to 2009.

A decrease in the book value of fixed assets drove the minor decrease in depreciation and amortisation from 2009 to 2010, while capital repairs and maintenance increased slightly in 2010 versus 2009.

Distribution Expenses

Distribution expenses were RUB 33,060 million in 2010, an increase of RUB 658 million, or 2.0%, from RUB 32,402 million in 2009. This increase was primarily driven by increased transportation costs throughout Russia due to a 9.4% increase in Russian rail tariffs in 2010 and an overall increase in transportation distances, which was due to a principal change in the transportation route used for the Group's sales to China from sea to rail transport. This increase was offset by a decrease in the volume of iron ore and steel products transported to customers located in Africa and Southeast Asia, while customers in Europe purchased higher volumes.

General and Administrative Expenses

General and administrative expenses were RUB 10,846 million in 2010, an increase of RUB 2,117 million, or 24.3%, from RUB 8,729 million in 2009. The increase in general and administrative expenses was primarily due to increased labour costs, which, in turn, stemmed from an increase in salaries in the second half of 2010 and accrual of annual bonuses for management and administrative staff. The shift back to a five-day work week for 100% of the Group's workforce from 1 September 2009 also increased labour-related costs in administration and management in 2010, but was partially offset by the Group's optimisation of administrative employee numbers.

Other Operating Income/(Expenses)—Net

Other operating expenses net of other operating income were RUB 2,710 million in 2010, change of RUB 3,049 million from an other operating income of RUB 339 million in 2009. The incurrence of other operating expenses net of other operating income was primarily due to an increase in other operating expenses resulting from foreign exchange loss from operating activities of RUB 183 million compared to a gain of RUB 788 million in 2009. In 2009, the Group also recorded a gain from disposal of available for sale financial assets of RUB 985 million. In addition, penalties received under sales contracts were RUB 482 million in 2009. No such items were recorded in 2010.

Operating Profit

Operating profit was RUB 62,666 million in 2010, a increase of RUB 46,837 million, or 295.9%, from RUB 15,829 million in 2009. As a percentage of total sales, operating profit increased to 28.5% in 2010 from 10.5% in 2009.

Finance Income

Finance income was RUB 880 million in 2010, a decrease of RUB 1,487 million, or 62.8%, from RUB 2,367 million in 2009. The decrease in finance income was primarily due to repayment of a substantial portion of loans issued to related parties in 2009. See "Material Contracts and Related Party Transactions—Related Party Transactions—Loans Advanced to Related Parties".

Finance Costs

Finance costs were RUB 14,767 million in 2010, an increase of RUB 135 million from RUB 14,632 million in 2009. As a percentage of total sales, finance costs decreased to 6.7% in 2010 from 9.7% in 2009. The increase in finance costs was primarily due to a RUB 1,546 million loss from extinguishment of debt arising from early repayment in 2010. This increase was partially offset by lower finance costs from a decrease in total borrowings in 2010 and lower waivers fees and other charges in 2010 arising from the renegotiation of certain loan covenants. See "—Liquidity and Capital Resources—Bank Loans and Credit Facilities".

Foreign Exchange Gain/Loss from Borrowings

Foreign exchange gain from borrowings of RUB 216 million was recorded in 2010, compared to loss of RUB 520 million in 2009. This change was primarily due to the appreciation of the rouble against the U.S. dollar in 2010 as considerable part of the Group's borrowings is denominated in U.S. dollars.

Gain on Extinguishment of Financial Liability

Gain on extinguishment of financial liability was RUB 12,765 million in 2009. No such transactions took place in 2010. In February 2009, the Group signed a termination agreement for all derivative financial instruments held as at 31 December 2008. This transaction has been accounted for as an extinguishment of the financial liability, resulting in a net gain of RUB 12,765 million, reflected in the 2009 income statement. The Group did not enter into any derivative contracts in 2010. See Note 31 "Derivative financial instruments" to the 2010 Financial Statements.

Profit Before Income Tax

Profit before income tax was RUB 48,774 million in 2010, an increase of RUB 33,123 million, or 211.6%, from RUB 15,651 million in 2009. As a percentage of total sales, profit before income tax increased to 22.2% in 2010 from 10.4% in 2009.

Income Tax Charge

Income tax charge was RUB 12,340 million in 2010, an increase of RUB 10,605 million from RUB 1,735 million in 2009. This increase was due primarily to increased taxable profits in 2010. Russia's corporate income tax rate was 20% in 2010 and 2009. The Group's effective tax rate was 25.3% in 2010, compared to 11.1% in 2009, primarily reflecting the tax treatment of the Group's gain on the extinguishment of a financial liability in 2009.

Profit for the Period Attributable to Owners of the Parent

Profit for the year attributable to owners of the Parent was RUB 36,085 million in 2010, an increase of RUB 22,230 million, or 160.4%, from RUB 13,855 million in 2009.

Management EBITDA

Management EBITDA was RUB 78,595 million in 2010, an increase of RUB 51,983 million, or 195.3%, from RUB 26,612 million in 2009. For a reconciliation of Management EBITDA to profit before tax for the years ended 31 December 2009 and 2010, see "Presentation of Financial and Other Information—Presentation of Certain Financial Information—Adjusted EBITDA and Management EBITDA".

Mining Segment Management EBITDA was RUB 60,382 million in 2010, an increase of RUB 45,110 from RUB 15,272 million in 2009. As a percentage of Group Management EBITDA, Mining Segment Management

EBITDA increased to 76.8% in 2010 from 57.4% in 2009. The absolute increase was due to increased demand which led to improved prices, while the proportionate increase was primarily due to the improvement in demand and prices for mining products in 2010 relative to those for steel products.

Steel Segment Management EBITDA was RUB 14,205 million in 2010, an increase of RUB 6,497 million, or 84.3%, from RUB 7,708 million in 2009. As a percentage of Group Management EBITDA, Steel Segment Management EBITDA decreased to 18.1% in 2010 from 29.0% in 2009. The increase in Steel Segment Management EBITDA in absolute terms was due primarily to an increase in demand, which led to increased prices for steel products as well as an increased share of higher value-added products being sold in 2010.

Trading Segment Management EBITDA was RUB 2,037 million in 2010, compared to RUB 2,151 million in 2009. As a percentage of Group Management EBITDA, Trading Segment Management EBITDA was 2.6% in 2010 compared to 8.1% in 2009. The slight decrease in the Trading Segment's Management EBITDA (in both absolute and proportional terms) was due primarily to a decrease in the mark-up the Trading segment applied for resale of finished goods of the Group to export customers.

Transportation Segment Management EBITDA was RUB 3,731 million in 2010, compared to RUB 2,980 million in 2009. As a percentage of Group Management EBITDA, Transportation Segment Management EBITDA was 4.7% in 2010, compared to 11.2% in 2009. The increase in the Transportation Segment's Management EBITDA in absolute terms was due primarily to increased external sales. The decrease as a percentage of Group Management EBITDA was the result of an improved Management EBITDA in the Mining and Steel Segments.

Other Segments Management EBITDA was a loss of RUB 1,760 million in 2010, an increase of RUB 261 million, from a loss of RUB 1,499 million in 2009, primarily as a result of increased labour costs at the Group's head office.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

The following table sets forth the Group's consolidated comprehensive income data for the years ended 31 December 2008 and 2009:

	Year ended 31 December			
	2008		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Sales	229,947	100.0	150,372	100.0
Cost of sales	(123,737)	53.8	(93,751)	62.3
Gross profit	**106,210**	**46.2**	**56,621**	**37.7**
Distribution expenses	(17,269)	7.5	(32,402)	21.5
General and administrative expenses	(9,455)	4.1	(8,729)	5.8
Excess of fair value of net assets acquired over the cost of acquisition	17	0.0	—	—
Fair value loss on financial liability	(16,691)	7.3	—	—
Impairment losses	(21,351)	9.3	—	—
Other operating income—net	1,936	0.8	339	0.2
Operating profit	**43,397**	**18.9**	**15,829**	**10.5**
Finance income	1,109	0.5	2,367	1.6
Finance costs	(11,004)	4.8	(14,632)	9.7
Foreign exchange loss from borrowings	(10,824)	4.7	(520)	0.3
Gain on extinguishment of financial liability	—	—	12,765	8.5
Share of net loss of associates	(210)	0.1	(158)	0.1
Profit before income tax	**22,468**	**9.8**	**15,651**	**10.4**
Income tax charge	(14,224)	6.2	(1,735)	1.2
Profit for the period	**8,244**	**3.6**	**13,916**	**9.3**
Total Comprehensive income for the period	**(2,336)**	**1.0**	**13,813**	**9.2**
Management EBITDA	**88,586**	**38.5**	**26,612**	**17.7**

Sales

Sales were RUB 150,372 million in 2009, a decrease of RUB 79,575 million, or 34.6%, from RUB 229,947 million in 2008. The decrease in sales in 2009 compared to 2008 was primarily due to a significant decrease in demand for iron ore and steel products caused by the global economic downturn and the corresponding decline in demand and market prices. Also as a result of decreased demand during the global economic downturn, the Group's production levels decreased in 2009 compared with 2008. The decrease in Group sales in 2009 was partially offset by foreign currency exchange gains as a result of the appreciation of the U.S. dollar against the rouble in the first half of 2009, as export sales were denominated mainly in U.S. dollars.

Segments

The following table presents the Group's consolidated sales by segment for the years ended 31 December 2008 and 2009:

	Year ended 31 December			
	2008[1]		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions) (unaudited)	*(%)*	*(RUB millions)*	*(%)*
Mining				
External revenue	67,723	29.5	20,105	13.4
Inter-segment revenue	30,984	13.4	30,936	20.6
Total	98,707	42.9	51,041	34.0
Steel				
External revenue	115,015	50.0	38,679	25.7
Inter-segment revenue	16,357	7.1	42,102	28.0
Total	131,372	57.1	80,781	53.7
Trading				
External revenue	40,328	17.5	89,730	59.7
Inter-segment revenue	—	—	60	—
Total	40,328	17.5	89,790	59.7
Transportation				
External revenue	3,849	1.7	1,591	1.1
Inter-segment revenue	7,783	3.4	11,399	7.6
Total	11,632	5.1	12,990	8.7
All other Segments				
External revenue	3,032	1.3	267	0.2
Inter-segment revenue	831	0.4	75	—
Total	3,863	1.7	342	0.2
Eliminations	*(55,955)*	*(24.3)*	*(84,572)*	*(56.3)*
Total external sales	**229,947**	**100.0**	**150,372**	**100.0**

(1) As described above in "—Segment and Geographic Reporting—IFRS Segment Reporting". For the purposes of the 2010 Financial Statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations, prior period disclosures have been prepared to conform to the 2010 presentation, which differs from the presentation contained in the 2009 Financial Statements.

Mining Segment

Total external Mining Segment sales were RUB 20,105 million in 2009, a decrease of RUB 47,618, or 70.3%, from RUB 67,723 million in 2008 due in part to the effect of the consolidation of FMC within the Group in August 2008, which caused sales that had been reported as external by the Mining Segment to be reported as inter-segment revenue from August 2008, which led to a decrease in sales of RUB 13,842 million of external sales of mining products and corresponding increase in inter-segment sales in 2008. The decrease in external sales was also due to the decreased demand for mining and steel products in 2009 as a consequence of the global economic downturn which led to a significant decrease in prices.

The following table presents the Group's total external sales for mining products for the years ended 31 December 2008 and 2009:

	Year ended 31 December			
	2008		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	(%)	(RUB millions)	(%)
Total external Mining Segment sales	67,723	78.9	20,105	35.4
Total external Trading Segment sales of mining products	18,136	21.1	36,739	64.6
Total external sales of mining products	**85,859**	**100.0**	**56,844**	**100.0**

Overall, production levels in the Mining Segment decreased in 2009 compared to 2008. The Mining Segment's product mix remained relatively constant in 2009 compared to 2008, due primarily to the prevalence of long-term sales contracts, which set forth specific product mix with respect to the relevant customer. For information on mining product output, see "Business—Mining Division—Overview". The overall decrease in Mining Segment sales was partially offset by increased sales of iron ore products of the Group to China.

Steel Segment

Total external Steel Segment sales were RUB 38,679 million in 2009, a decrease of RUB 76,336 million, or 66.4%, from RUB 115,015 million in 2008, due in part to the effect of the consolidation of FMC within the Group in August 2008, which caused sales that had been reported as external by the Steel Segment to be reported as inter-segment revenue from August 2008, which led to a decrease in sales of RUB 11,423 million of external sales of steel products and corresponding increase in inter-segment sales in 2008. Overall, Steel Segment sales decreased in 2009 compared to 2008 due primarily to decreased demand and lower prices for steel products as a consequence of the global economic downturn. The decrease in global steel prices in 2009 was driven primarily by the contraction in global industrial production. See "—Significant Factors Affecting the Group's Results of Operations—Demand for and Pricing of Iron Ore and Steel Products—Steel Pricing"

The following table presents the Group's total external sales for steel products for the years ended 31 December 2008 and 2009:

	Year ended 31 December			
	2008		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	(%)	(RUB millions)	(%)
Total external Steel Segment sales	115,015	83.8	38,679	42.2
Total external Trading Segment sales of steel products	22,192	16.2	52,991	57.8
Total external sales of steel products	**137,207**	**100.0**	**91,670**	**100.0**

Production levels and product mix in the Steel Segment shifted in 2009 compared to 2008, with production facilities operating at reduced capacity in 2009, compared to full capacity in the first nine months of 2008, and product mix shifting towards lower margin products in 2009 as compared to 2008. For information on steel product output, see "Business—Steel Division—Overview". See "—Significant Factors Affecting the Group's Results of Operations—Demand for and Pricing of Iron Ore and Steel Products".

Trading Segment

Trading Segment external sales increased significantly in 2009 compared to 2008, due primarily to the acquisition of FMC in August 2008. The acquired business contributed revenues of RUB 36,959 million into the Group for the period from the acquisition to 31 December 2008. See "—Significant Factors Affecting the Group's Results of Operations—Acquisitions and Disposals—FMC".

Transportation Segment

Transportation Segment external sales were RUB 1,591 million in 2009, a decrease of RUB 2,258 million, or 58.7% from RUB 3,849 million in 2008. The decrease in sales to third parties was due to the global economic downturn, although inter-segment revenues increased by RUB 3,616 million, or 46.5% from RUB 11,399 million in 2009 compared to RUB 7,783 million in 2008.

All other Segments

All other Segments external sales decreased to RUB 267 million in 2009 compared to RUB 3,032 million in 2008, due primarily to the disposal of certain Group subsidiaries included in All other Segments in 2008.

Sales by Geographic Location

The following table presents the Group's total sales to customers within Russia and to customers externally for the years ended 31 December 2008 and 2009, including as a percentage of external sales:

	Year ended 31 December			
	2008		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	(%)	(RUB millions)	(%)
Russia	94,082	40.9	50,860	33.8
Other countries	135,865	59.1	99,512	66.2
Total	**229,947**	**100.0**	**150,372**	**100.0**

Sales to customers in Russia decreased by RUB 43,222 million, or 45.9% in 2009 from 2008 due primarily to contractions in industrial production and the concurrent reduction in demand for the Group's mining and steel products, as well as decreases in market prices, each as a result of the global economic downturn. Sales to customers in other countries decreased to RUB 99,512 million in 2009 compared to RUB 135,865 million in 2008, also as a result of the global economic downturn. However, sales to other countries as a percentage of total sales increased from 2008 to 2009, in part due to increase of sales to China as Chinese customers paid for products in cash, which was advantageous in the tight credit environment prevalent in 2009.

Sales by End Product and Service

The following table sets forth the breakdown of the Group's sales by end product and service to external customers in 2008 and 2009, including as a percentage of total sales:

	Year ended 31 December			
	2008		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	(%)	(RUB millions)	(%)
Steel and rolled products	119,665	52.0	82,425	54.8
Iron ore pellets	33,547	14.6	27,279	18.1
Iron ore	28,151	12.2	14,288	9.5
HBI	20,696	9.0	14,304	9.5
Pig iron	10,181	4.4	5,832	3.9
Transportation services	3,848	1.7	1,496	1.0
Scrap metal	1,222	0.5	255	0.2
Other revenue	12,637	5.6	4,493	3.0
Total	**229,947**	**100.0**	**150,372**	**100.0**

Overall, sales of all end products and services decreased in 2009 compared to 2008 for the reasons described above. Mining products decreased slightly less in proportion to steel products due to a change in the pricing of iron ore as described in "Industry Overview".

Cost of Sales

Cost of sales was RUB 93,751 million in 2009, a decrease of RUB 29,986 million, or 24.2%, from RUB 123,737 million in 2008. The following table sets forth a breakdown of the Group's cost of sales for the years ended 31 December 2008 and 2009, including as a percentage of total sales:

	Year ended 31 December			
	2008		2009	
	Amount	% of Sales	Amount	% of Sales
	(RUB millions)	*(%)*	*(RUB millions)*	*(%)*
Cost of sales	**123,737**	**53.8**	**93,751**	**62.3**
Materials and components	74,544	32.4	45,082	30.0
Energy costs	16,276	7.1	16,447	10.9
Labour costs	15,355	6.7	14,745	9.8
Depreciation and amortisation	9,588	4.2	10,027	6.7
Amortisation of mineral rights	2,048	0.9	2,048	1.4
Land, property and other taxes	1,978	0.9	2,213	1.5
Repairs and maintenance	930	0.4	600	0.4
Other	3,018	1.2	2,589	1.6

The overall decrease in cost of sales in 2009 compared to 2008 was primarily due to a decrease in production volumes, as well as decreases in materials and components costs in 2009 compared to 2008. Although cost of sales decreased in absolute terms in 2009 compared to 2008, cost of sales increased, as a percentage of total sales, to 62.3% in 2009 from 53.8% in 2008, due to the fact that decreases in sales prices for mining and steel products in 2009 outstripped the decreases in cost of sales, in particular for materials, components and energy.

Materials and components costs decreased primarily due to decreased prices for raw materials used in the mining and steel production processes, with prices for raw materials in 2009 declining to approximately half of their 2008 levels and decreased consumption of raw materials as a result of a decrease in production volumes.

Energy costs were roughly the same in 2009 and 2008 despite the decrease in production volumes, primarily as a result of increased tariffs relating to energy usage.

The decrease in labour costs was driven primarily by the implementation of a four-day work week in the first eight months of 2009 for an average of 55%-60% of the Group's total workforce in response to the economic slow-down. In addition, labour costs decreased as a result of increased efficiencies in the use of personnel. However, labour costs, while decreasing in absolute terms, did increase as a percentage of sales. This reflects in part the Group's decision to keep relatively constant its overall numbers of employees and wages through the production downturn.

Depreciation and amortisation costs increased slightly from 2008 to 2009 as a result of changes in the book value of fixed assets.

Distribution Expenses

Distribution expenses were RUB 32,402 million in 2009, an increase of RUB 15,133 million, or 87.6%, from RUB 17,269 million in 2008, due primarily to the acquisition of FMC in August 2008, an increase in rail tariffs in 2009 and increased sales to China. Prior to the acquisition of FMC, distribution costs related to FMC's export sales of the Group's products were not included in the Group's financial statements. See "—Significant Factors Affecting the Group's Results of Operations—Acquisitions and Disposals—FMC".

In addition, rail tariffs increased by 12.4% in 2009 over 2008, causing the cost of distribution of the Group's products by rail throughout Russia to increase, despite a decrease in production. Additionally, the global economic downturn led to a shift in customer mix: declining sales to Russian and European customers and

increasing sales to Asian customers, with customers in China accounting for 13.6% of total sales 2009. This also resulted in increased transportation costs, due to the longer distances between the Group's production facilities and the Asian markets.

As a percentage of the Group's total sales, distribution expenses increased to 21.5% in 2009 from 7.5% in 2008, due primarily to the fact that pricing for the Group's products decreased in 2009 at a faster rate than distribution expenses and, in particular, transportation expenses.

General and Administrative Expenses

General and administrative expenses were RUB 8,729 million in 2009, a decrease of RUB 726 million, or 7.7%, from RUB 9,455 million in 2008. The decrease was primarily due to decreased labour costs (relating primarily to employees involved in administrative or managerial activities). The shift to a four-day work week for the Group's workforce during much of 2009 also reduced labour-related costs in administration and management, but was partially offset by an increase in rent across the Group.

Impairment Losses

Impairment losses were RUB nil in 2009 compared to RUB 21,351 million in 2008. The Group did not incur impairment losses in 2009 primarily due to the strengthening market for steel and iron ore products that was evident by the end of 2009. In 2008, the Group recognised impairments of goodwill in respect primarily of FMC, as well as Hamryiah Steel and Ural Steel, reflecting weakening economic and market conditions and a substantial reduction in sales prices and volumes.

Other Operating Income—Net

Other operating income net of other operating expense resulted in an income of RUB 339 million in 2009, a decrease of RUB 1,597 million, or 82.5%, from an income of RUB 1,936 million in 2008. As a percentage of total sales, other operating income net decreased to 0.2% in 2009 from 0.8% in 2008. The decrease in other operating income—net was primarily due to a decrease in other operating income resulting from a smaller net gain in 2009 on available-for-sale financial assets as compared to 2008 as well as a reduction in social and charitable expenses. This was partially offset by the absence of any impairment for prepayments for investments in 2009 compared to 2008.

Operating Profit

Operating profit was RUB 15,829 million in 2009, a decrease of RUB 27,568 million, or 63.5%, from RUB 43,397 million in 2008. As a percentage of total sales, operating profit decreased to 10.5% in 2009 from 18.9% in 2008.

Finance Income

Finance income was RUB 2,367 million in 2009, an increase of RUB 1,258 million, or 113.4%, from RUB 1,109 million in 2008. The increase in finance income was primarily due to an increase in the amount of interest-bearing loans issued as a result of a loan issued by the Group to a related party in December 2008. See "Material Contracts and Related Party Transactions—Related Party Transactions—Loans advanced to related parties".

Finance Costs

Finance costs were RUB 14,632 million in 2009, an increase of RUB 3,628 million, or 33.0%, from RUB 11,004 million in 2008. As a percentage of total sales, finance costs increased to 9.7% in 2009 from 4.8% in 2008. The increase in finance costs was primarily due to higher prevailing interest rates due to a lack of liquidity in markets in 2009 due to the global economic crisis, as well as fees and other charges associated with past covenant non-compliance. See "—Liquidity and Capital Resources—Bank Loans and Credit Facilities".

Foreign Exchange Loss from Borrowings

Foreign exchange loss from borrowings was RUB 520 million in 2009, a decrease of RUB 10,304 million, or 95.2%, from RUB 10,824 million in 2008. This decrease was primarily due to the declining value of the U.S. dollar against the rouble during 2009 compared to the sharp appreciation in value of the U.S. dollar against the rouble in the second half of 2008.

Gain on Extinguishment of Financial Liability/Fair Value Loss on Financial Liability

In 2008 the Group entered into derivative financial contracts such as foreign exchange forwards and options. In the year ended 31 December 2008, the Group recognised a net loss of RUB 16,691 million arising from realised forward exchange contracts and from changes in the fair values of other derivatives in operating profit and loss in the statement of comprehensive income.

In February 2009, the Group signed a termination agreement for all derivative financial instruments held at 31 December 2008. In accordance with that agreement, the Group was required to pay a U.S.$109 million (RUB 3,204 million at the exchange rate at the date of the termination agreement) cancellation fee, of which U.S.$20 million was paid in February 2009 and U.S.$89 million was paid in equal monthly instalments until July 2011. The transaction has been accounted for as an extinguishment of financial liability, resulting in a net gain of RUB 12,765 million.

Profit Before Income Tax

Profit before income tax was RUB 15,651 million in 2009, a decrease of RUB 6,817 million, or 30.3%, from RUB 22,468 million in 2008. As a percentage of total sales, profit before income tax increased to 10.4% in 2009 from 9.8% in 2008.

Income Tax Charge

Income tax charge was RUB 1,735 million in 2009, a decrease of RUB 12,489 million, or 87.8%, from RUB 14,224 million in 2008. This decrease was due primarily to decreased profits in 2009 as well as a change in tax rates. Russia's statutory corporate income tax rate decreased to 20% in 2009 compared to 24% in 2008. The Group's effective tax rate was 11.1% in 2009, compared to 63.3% in 2008, reflecting principally the use in 2009 of previously unrecognised tax losses and the tax treatment on the Group's gain on the extinguishment of a financial liability; the non-deductibility in 2008 of impairment charges and a fair value loss on financial liabilities and the effect of remeasurement of deferred tax due as a result of the change in tax rates in 2008.

Profit for the Year Attributable to Owners of the Parent

Profit for the year attributable to owners of the Parent was RUB 13,855 million in 2009, an increase of RUB 6,112 million, or 78.9%, from RUB 7,743 million in 2008. As a percentage of total sales, profit for the year attributable to equity holders of the Company increased to 9.2% in 2009 from 3.4% in 2008.

Management EBITDA

Management EBITDA was RUB 26,612 million in 2009, a decrease of RUB 61,974 million, or 70.0%, from RUB 88,586 million in 2008. For a reconciliation of Management EBITDA to profit before tax for the years ended 31 December 2008 and 2009, see "Presentation of Financial and Other Information—Management EBITDA".

The Mining Segment Management EBITDA was RUB 15,272 million in 2009, a decrease of RUB 38,263 million, or 71.5%, from RUB 53,535 million in 2008. As a percentage of Group Management EBITDA, Mining Segment Management EBITDA decreased to 57.4% in 2009 from 60.4% in 2008. The absolute decrease was due primarily to the deterioration in demand and prices for mining products in 2009, which led to lower production volumes.

Steel Segment Management EBITDA was RUB 7,708 million in 2009, a decrease of RUB 24,772 million, or 76.3%, from RUB 32,480 million in 2008. As a percentage of Group Management EBITDA, Steel Segment

Management EBITDA decreased to 29.0% in 2009 from 36.7% in 2008. The absolute decrease was due primarily to a deterioration in demand, which led to decreased sales in terms of both volumes and prices for steel products in 2009.

Trading Segment Management EBITDA was RUB 2,151 million in 2009 compared to a loss of RUB 276 million in 2008. As a percentage of Group Management EBITDA, Trading Segment Management EBITDA was 8.1% in 2009. The increase in the Trading Segment's Management EBITDA in absolute terms was due primarily to the consolidation of FMC within the Group for the entirety of 2009 as compared to only five months of 2008.

Transportation Segment Management EBITDA was RUB 2,980 million in 2009, an increase of RUB 110 million or 3.8%, from RUB 2,870 million in 2008. As a percentage of Group Management EBITDA, Transportation Segment Management EBITDA increased to 11.2% in 2009 from 3.2% in 2008. Transportation Segment EBITDA remained relatively constant on an absolute basis in 2009 compared to 2008.

All other Segments Management EBITDA was a loss of RUB 1,499 million in 2009, an increase of RUB 1,476 million, from a loss of RUB 23 million in 2008. In August 2008 the Group entered into a long-term rent agreement to lease office premises. The increase in losses in All other Segments represents rent charges for the building for a full year in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Over the period reviewed in this discussion and analysis, the Group's principal sources of funds have been bank facilities and cash generated from its operating activities. The Group's principal uses of cash are to fund capital expenditures, acquisitions and working capital.

The Group's corporate treasury monitors the financial requirements of its subsidiaries and has a variety of means to ensure that each subsidiary has sufficient liquidity to meet its obligations and capital requirements. The Group's estimated net debt available under current credit facilities was RUB 108,188 million as at 31 March 2011. The Group's current ratio, defined as current assets divided by current liabilities, amounted to 1.14 as at 31 March 2011, 1.03 as at 31 December 2010, 0.71 as at 31 December 2009 and 0.39 as at 31 December 2008. Cash balances were RUB 10,659 million as at 31 March 2011, RUB 4,633 million as at 31 December 2010, RUB 12,327 million as at 31 December 2009 and RUB 4,901 million as at 31 December 2008.

In April 2011 LGOK and OEMK entered into the PXF Facility, details of which are described below in "—Bank Loans and Credit Facilities".

Cash Flows

The following table presents the Group's cash flow changes for the years ended December 31, 2008, 2009 and 2010, as well as for the three months ended 31 March 2010 and 2011:

	Year ended 31 December			31 March	
	2008	2009	2010	2010	2011
	(RUB millions)			(RUB millions)	
Net cash from operating activities	**58,980**	**19,389**	**47,631**	**5,824**	**18,818**
Net cash from/(used in) investing activities	**(68,928)**	**7,450**	**(9,853)**	**(1,614)**	**(7,180)**
Net cash from/(used in) financing activities	**5,621**	**(18,671)**	**(47,823)**	**(7,451)**	**(5,253)**
Effect of exchange rate changes on cash and cash equivalents	293	119	40	(135)	(359)
Net increase/(decrease) in cash and cash equivalents	**(4,034)**	**8,287**	**(10,005)**	**(3,376)**	**6,026**
Cash and cash equivalents at the beginning of the period, net of restricted cash	10,385	6,351	14,638	14,638	4,633
Cash and cash equivalents at the end of the period	6,351(1)	14,638(2)	4,633(3)	11,262(4)	10,659(5)
Included in cash and cash equivalents per the statement of financial position	4,901	12,327	4,633	8,951	10,659
Included in the assets of the disposal group	1,450	2,311	—	2,311	—

(1) Net of restricted cash of RUB 487 million as at 31 December 2008.
(2) Net of restricted cash of RUB 176 million as at 31 December 2009.
(3) There was no restricted cash as at 31 December 2010.
(4) Net of restricted cash of RUB 19 million as at 31 March 2010.
(5) Net of restricted cash of RUB 7 million as at 31 March 2011.

Net cash from operating activities

Net cash generated from operating activities was RUB 18,818 million in the three months ended 31 March 2011, an increase of RUB 12,994 million, or 223.1%, from RUB 5,824 million in the corresponding period in 2010. This increase was primarily due to the Group's increased profitability as prices for the Group's products increased period on period. The overall increase in cash generated from operating activities was partially offset by an increase in income tax paid.

Net cash generated from operating activities was RUB 47,631 million in 2010, an increase of RUB 28,242 million, or 145.7%, from RUB 19,389 million in 2009. The increase was primarily due to the Group's increased profitability, reflecting the global economic recovery. The overall increase in cash generated from operating activities was partially offset by increases in working capital (mainly inventories and receivables) and income tax paid.

Net cash generated from operating activities was RUB 19,389 million in 2009, a decrease of RUB 39,591 million, or 67.1%, from RUB 58,980 million in 2008. The overall decrease was primarily due to a significant decrease in profit before income tax generated by the Group in 2009 as a result of global economic downturn, an increase in finance costs paid relating to higher interest rates on borrowings. The overall decrease in cash generated from operating activities was partially offset by a decrease of income tax paid.

Net cash from/(used in) investing activities

Net cash used in investing activities was 7,180 million in three months ended 31 March 2011, compared to net cash used in investing activities of RUB 1,614 million in the corresponding period in 2010. This increase was due to acquisitions of items of property, plant and equipment and loans advanced. Cash outflow from purchases of property, plant and equipment in three months ended 31 March 2011 were RUB 5,141 million, an increase of RUB 3,249 million, or 171.7%, from cash outflow of RUB 1,892 million in the 2010 period as limited spending on modernisation and investment resumed as markets recovered. In three months ended 31 March 2011, the Group advanced loans in total amount of RUB 2,072 million compared to nil in the 2010 period.

Net cash used in investing activities was 9,853 million in 2010 compared to net cash from investing activities of RUB 7,450 million in 2009. This reversal was due primarily to increase in purchases of property, plant and equipment to RUB 12,405 million from RUB 9,748 million, lower repayments of loans advanced (due to fact that outstanding loans advanced decreased as at 31 December 2009), and no proceeds from disposal of commercial papers were obtained in 2010.

Net cash generated from investing activities was 7,450 million in 2009 compared to net cash used in investing activities of RUB 68,928 million in 2008. This reversal was due primarily to a cessation of capital expenditure on growth and investment projects in 2009 as a result of the deterioration in market conditions. For the same reason, purchases of property, plant and equipment and intangible assets in 2009 were RUB 9,748 million, a decrease of RUB 15,197 million, or 60.9%, from RUB 24,945 million in 2008. This was offset by the generation in 2009 of RUB 14,533 million in cash inflow from the disposal of commercial paper. In 2009, the Group did not acquire subsidiaries, available-for-sale financial assets or advance loans, as compared to acquisition of subsidiaries of RUB 16,288 million, acquisition of available-for-sale financial assets in amount of RUB 19,219 million and loans advanced of RUB 28,959 million (of which RUB 10,773 million was repaid in 2008 and RUB 10,696 million was repaid in 2009) in 2008. This was slightly offset by residual payment for the Udokan copper deposit license, which amounted to RUB 10,540 million in 2009 compared to a prepayment of RUB 4,500 million in 2008.

Net cash from/(used in) financing activities

Net cash used in financing activities was RUB 5,253 million in three months ended 31 March 2011, compared to net cash used in financing activities of RUB 7,451 million in the corresponding period in 2010. The decrease was primarily due to repayment of borrowings in 2010.

Net cash used in financing activities was RUB 47,823 million in 2010 compared to net cash used in financing activities of RUB 18,671 million in 2009. This increase was primarily due to repayment of borrowings and dividends paid to shareholders.

Net cash used in financing activities was RUB 18,671 million in 2009, compared to net cash generated from financing activities of RUB 5,621 million in 2008. This reversal was primarily due to an increase in repayments of borrowings and a decrease in proceeds from borrowings and payment of dividends in 2008. See "—Liquidity—Bank Loans and Credit Facilities".

Capital Expenditures

The Group's capital expenditure programme is aimed at the reconstruction and modernisation of its existing production facilities in order to reduce costs, improve profit margins, improve process flows, expand product range and grow its business. The Group also plans to make investments to increase the share of higher margin products it produces and sells. See "Business—Modernisation and Investment Programme" and "—Significant Factors Affecting Results of Operations—Modernisation and Investment Programme".

The Group has budgeted a total of RUB 14.3 billion for capital expenditures in 2011. For a summary of the Group's budgeted capital expenditure projects for 2011 and for details on capital expenditures for the Mining Segment and Steel Segment, see "Business—Mining Division—Mining Division Modernisation and Investment Programme" and "Business—Steel Division—Steel Division Modernisation and Investment Programme".

In the three months ended 31 March 2011, the Group's investments amounted to RUB 5.1 billion in the implementation of modernisation and investment projects, an increase of 168.4% from RUB 1.9 billion in the three months ended 31 March 2010. This increase was primarily due to acquisition of items of property, plant and equipment.

In 2010, the Group's investments amounted to RUB 12.4 billion in the implementation of the Group's modernisation programme, an increase of 27.2% from RUB 9.75 billion in 2009. This increase was primarily due increase of purchases of property, plant and equipment and exploration and evaluation expenditures. Additions in 2010 were more heavily weighted towards implementation of modernisation projects than maintenance as in 2009.

In 2009, the Group's investments amounted to RUB 9.75 billion, a decrease of 61% from RUB 24.9 billion in 2008. This decrease was primarily due to the deteriorating financial environment, which led the Group to adjust the implementation schedule of its investment projects. Additions in 2009 were more heavily weighted towards maintenance projects than in 2008, in which expenditures were more focused on growth and investment projects.

Bank Loans and Credit Facilities

The following table sets forth the Group's borrowings liabilities and cash balances as at 31 March 2011:

	As at 31 March
	2011
	(RUB millions)
Interest bearing loans and borrowings	
Current portion thereof	44,785
Non-current portion thereof	74,062
Total loans and borrowings	**118,847**
Less: cash and cash equivalents	(10,659)
Net financial debt	**108,188**

PXF Facility

On 4 April 2011, LGOK, OEMK and Deutsche Bank AG, Amsterdam Branch, and other banks, entered into the PXF Facility, a U.S.$3.1 billion credit facility, under which borrowed amounts bear interest at a LIBOR + 1.75-3.0% (in respect of Facility A (as defined below)) which depends on the ratio of Debt to 12-month consolidated EBITDA tested semi-annually on the basis of the Groups IFRS accounts or LIBOR +4.65% (in respect of Facility B (as defined below)). The proceeds are to be used for the purposes of repayment of outstanding amounts under the facility agreement dated 16 July 2008 (as amended) between LGOK, OEMK and Deutsche Bank AG, Amsterdam Branch as agent and security trustee, and others; payment of any fees payable by each of LGOK and OEMK under the PXF Facility; and prepayment, repayment or making of loans within the Group, and/or the financing of general corporate purposes of each of LGOK and OEMK, including trade finance. As of the date of this Prospectus, the PXF Facility is fully drawn.

The PXF Facility is available in two tranches: U.S.$3 billion ("Facility A"), which matures in April 2016 and U.S.$100 million ("Facility B"), which matures in April 2018. The PXF Facility contains customary affirmative and negative covenants, including, among others, a negative pledge, limitations on disposals and acquisitions, limitations on dividends and other profit distributions, limitations on mergers and other corporate reorganisations, in each case subject to customary exclusions and quantitative thresholds.

Restrictions under the PXF Facility

The PXF Facility requires the maintenance of the following financial ratios, calculated in accordance with the PXF Facility:

(i) Twelve month consolidated EBITDA to twelve month interest costs of at least 4.0:1.0;

(ii) Total debt to twelve month consolidated EBITDA not exceeding 3.5:1.0;

(iii) Total debt to equity as at the last day of a financial year and a financial half-year not exceeding:

(a) 3.0:1.0, before 31 December 2012; and

(b) 1.75:1.0, thereafter.

Other Bank Facilities

Other than with respect to the PXF Facility, the following are the primary credit facilities the Group has established:

- November 2010: unsecured credit facilities with Alfa Bank for LGOK, MGOK and OEMK in the aggregate amount of RUB 9.3 billion at an annual interest rate of 7.5%, maturing in May 2012; arranged primarily for working capital requirements and general corporate purposes. As at 31 March 2011, this facility was fully drawn at RUB 9.3 billion.
- September 2010: unsecured credit facility with Bank of Moscow in the aggregate amount of U.S.$150 million at an annual interest rate of LIBOR + 4.3%; arranged to refinance existing loans. As at 31 March 2011, this facility was fully drawn at U.S.$150 million and has since been partially repaid.
- September 2010: unsecured credit facility with Bank of Moscow in the aggregate amount of RUB 6 billion at an annual interest rate of 7.75%; arranged primarily to refinance of existing loans as well as for working capital requirements. As at 31 March 2011, this facility was fully drawn at RUB 6 billion.
- October 2009: credit facility with Sberbank in the aggregate amount of U.S.$200 million at an annual interest rate of LIBOR plus a margin from 5.7% to 6.7%, maturing in October 2013. As at 31 March 2011, this facility was fully drawn at U.S.$200 million.
- September 2009: bank loans in an aggregate amount of RUB 61.5 billion with VTB bank, with RUB 31.75 billion secured by state guarantees of the Russian Federation. The loans have an annual interest rate equal to the Central Bank refinancing rate + 4.00%, and were arranged to finance operating activities and capital expenditure requirements as well as to refinance the existing Sberbank loans in accordance with their repayment schedule. As at 31 March 2011, the loans had been partially utilised in the amount of RUB 31.2 billion. The loans were repaid in full on 1 July 2011.

In addition, the Group has established the following syndicated credit facilities:

- July 2008: secured syndicated structured pre-export finance facility with 13 syndicate banks in the amount of U.S.$1.6 billion at an annual interest rate of LIBOR + 2.00% with a final maturity in July 2013. The purpose of this loan is to refinance existing indebtedness. Due to the waiver and amendments signed in December 2009 with regard to the breach of financial covenants which took place in 2008, the interest rate was increased to LIBOR + 4.00% with a step down to LIBOR + 3.50% once financial covenants were restored. As at 31 March 2011, U.S.$1,070 million was outstanding. The outstanding amount was repaid in full from the PXF Facility proceeds raised in April 2011.

In addition to the credit facilities set forth above, the Group has additional credit facilities denominated in roubles, U.S. dollars and euro.

Contractual Obligations and Commercial Commitments

Financial liabilities

The following table sets forth, as at 31 December 2010, the Group's financial liabilities into relevant maturity groups based on the contractual undiscounted cash flows including interest for the remaining period. As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the statement of financial position for borrowings and trade and other payables. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	1 – 2 years	3 – 5 years	More than 5 years	Total
		(RUB millions)			
Borrowings	47,491	87,672	2,687	1,881	139,731
Trade and other payables	8,299	—	—	—	8,299
Liability to the regional administration	154	307	372	5,167	6,000
Total	**55,944**	**87,979**	**3,059**	**7,048**	**154,030**

The following table sets forth, as at 31 March 2011, the Group's financial liabilities into relevant maturity groups based on the contractual undiscounted cash flows for the remaining period at the date of the Group's most recent statement of financial position:

	Less than 1 year	1 – 2 years	3 – 5 years	More than 5 years	Total
		(RUB millions)			
Borrowings	50,983	75,013	2,477	2,215	130,688
Trade and other payables	8,126				8,126
Liability to the regional administration	150	330	358	4,695	5,533
Total	**59,259**	**75,343**	**2,835**	**6,910**	**144,347**

Pensions

As at 31 March 2011, the Group had liabilities of RUB 8,862 million, compared to RUB 8,703 million as at 31 December 2010, RUB 6,097 million as at 31 December 2009 and RUB 5,141 million as at 31 December 2008, in respect of post-employment benefits that the Group provides to employees. These amounts represent the present value of the Group's defined benefit obligation less the fair value of plan assets and adjusted for unrecognised past service costs.

The Group's pension plans are primarily unfunded. The Group is obliged to make one-time payments to employees at retirement. Although the Group is not required under law to make further payments to retired employees, it has done so in the past and continues to do so in a manner consistent with past practice. In the first quarter of 2011, the Group made RUB 120 million in benefits payments to retired employees. In 2010, the Group made RUB 479 million in benefits payments to retired employees, compared to RUB 368 million in 2009 and RUB 265 million in 2008.

Contractual Commitments

At 31 March 2011, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of RUB 11,247 million.

At 31 December 2010, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of RUB 12,475 million.

Dividends

In 2010, the Group declared and paid dividends to its shareholders of RUB 6,510 million (or RUB 0.08 per ordinary share).

In April 2011, the Group declared dividends to its shareholders of RUB 7,474 million (or RUB 0.09 per ordinary share), paid in April-May of 2011.

Off balance-sheet arrangements

In 2010, the Group issued guarantees for obligations of related parties in the amount of RUB 6,322 million, compared to RUB 4,497 million in 2009 and RUB 29,302 million in 2008. In addition, the Group issued guarantees for obligations of unrelated third parties in the amount of RUB 40 million in 2010, compared to RUB 50 million in 2009 and RUB 68 million in 2008.

The maximum exposure to credit risk arisen from guarantees issued is limited to the amounts guaranteed. The Group does not expect cash outflow as a result of the guarantees provided.

Other than as set forth above, the Group is not party to any off-balance sheet arrangements.

Environmental matters

Environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under the existing legislation, management believes that there are no significant liabilities for environmental damage.

While the Group has certain obligations relating to the retirement of long-lived assets, based on the current requirements under Russian law and various contractual agreements associated with the licenses and the expected life of the Group's reserves, the Group has estimated these discounted obligations related to the retirement of its long-lived assets as immaterial.

Tax contingencies

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. From time to time, the Group adopts interpretations of such uncertain areas of Russian tax legislation that reduce the overall tax rate of the Group. Such tax positions may be scrutinised and challenged by the competent tax authorities, whether as a result of recent developments in administrative and court practices or otherwise. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may have a significant impact on the Group.

In view of these matters, management estimates that the Group has possible obligations from exposure to other than remote tax risks of RUB 5,050 million for the year ended 31 December 2010 compared to RUB 3,511 million in 2009 and RUB 4,445 million in 2008. These exposures primarily relate to taxes (profits tax and VAT), penalties and late payment interest arising from intercompany charges and certain expenses incurred by the Group entities. See "Risk Factors—Risk Related to Taxation—Russian tax law and practice are not fully developed and are subject to frequent changes".

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group's activities expose it to, among others, foreign exchange risk, price risk, interest rate risk and commodity risk.

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. Foreign exchange risk arises from recognised assets and liabilities and investments in foreign operations.

At 31 December 2010, if the rouble had weakened/strengthened by 4% (2009: 10%) against the U.S. dollar with all other variables held constant, post-tax profit for the year would have been RUB 1,589 million (2009: RUB 6,977 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of U.S. dollar-denominated borrowings and loans advanced to related parties. Profit is less sensitive to movements in U.S. dollar exchange rates in 2010 than 2009 because of the decreased amount of U.S. dollar-denominated borrowings.

At 31 December 2010 if the rouble had weakened/strengthened by 8% (2009: 5%) against the EUR with all other variables held constant, post-tax profit for the year would have been RUB 764 million (2009: RUB 537 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade receivables and borrowings.

The Group does not have formal arrangements, such as foreign currency hedging contracts, to mitigate foreign exchange risks of the Group's operations. However, management monitors net monetary position of the Group's financial assets and liabilities denominated in foreign currency on a regular basis.

Price Risk

The Group has limited exposure to equity and debt securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. There are no formal procedures established to manage the price risk. Transactions in equity and debt securities are authorised by the Board of Directors.

Interest Rate Risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring of current market interest rates and analysis of the Group's interest-bearing position is performed by the Group's finance department as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The interest rate risk profile of the Group as at 31 December 2008, 2009 and 2010, and 31 March 2010 and 2011, was as follows:

	As at 31 December			Three months ended 31 March
	2008	2009	2010	2011
	(RUB millions)			
Fixed rate instruments				
Financial assets	30,608	10,608	4,164	5,918
Financial liabilities	(153,597)	(103,396)	(94,633)	(89,486)
Total	**(122,989)**	**(92,788)**	**(90,469)**	**(83,568)**
Variable rate instruments				
Financial assets	—	—	—	—
Financial liabilities	(25,996)	(62,857)	(33,437)	(31,087)
Total	**(25,996)**	**(62,857)**	**(33,437)**	**(31,087)**
Total financial instruments	**(148,985)**	**(155,645)**	**(123,906)**	**(114,655)**

All other financial instruments are non-interest bearing.

Fair value sensitivity analysis for fixed rate instruments

The Group does not have significant fixed rate financial assets and liabilities carried at fair value. Therefore, a change in interest rates at the end of the reporting period would not affect the Group's comprehensive income significantly.

Cash flow sensitivity analysis for variable rate instruments

Cash flow interest rate risk sensitivity analysis is primarily based on LIBOR and EURIBOR interest rate volatility and the following assumptions:

(a) Profit or loss impacts assume adjustments to interest income and expense for a 12-month period.

(b) The balance of interest bearing financial instruments at the end of the reporting period is representative of the balance for the year as a whole and hypothetical interest rate movements are deemed to apply for the entire reporting period.

At 31 December 2010, if interest rates on U.S.dollar-denominated borrowings had been 100 basis points (2009: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been RUB 163 million (2009: RUB 241 million) lower/higher as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

At 31 December 2010, if interest rates on EUR-denominated borrowings had been 100 basis points (2009: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been RUB 94 million (2009: RUB 95 million) lower/higher, as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed. There would be no material effect on equity reserves other than those relating directly to movements in the profit or loss.

Basis of Preparation and Critical Accounting Estimates and Judgments

The Group prepares its annual financial statements in accordance with IFRS and condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Significant accounting policies applied in the preparation of the IFRS financial statements are described in Note 2 to the consolidated financial statements for the year ended 31 December 2010. The application of certain of those policies requires Management to make estimates, assumptions and judgements that can significantly affect the amounts reported in the financial statements. Management's estimates, assumptions and judgements are continually evaluated and are based on Management's previous experience, information provided by the Group's customers, information available from other outside sources and other factors, as appropriate, as well as expectations of future events that are believed to be reasonable under the circumstances.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include those set forth below.

Going Concern

Management prepares its financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

Remaining Useful Life of Property, Plant and Equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on experience with similar assets. The future economic benefits embodied in assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in a reduction of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The Group extracts iron ore from land owned by government authorities. The Group obtains licences and pays exploration and production taxes to explore and produce iron ore from the fields covered by the licences. The licences expire in 2016, but they may be extended at the Group's initiative provided the Group is in compliance with the licence terms. The estimated remaining useful life of some property, plant and equipment is beyond the expiration dates of the related licences. Management believes that the Group is currently in compliance with the terms of the licences and will be able to extend the licences. Any changes to this assumption could significantly affect the prospective depreciation and amortisation charges and asset carrying values.

Related Party Transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Tax Legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. See "—Tax Contingencies".

Provision for Employee Benefit Obligations

The Group's estimates for employee benefit obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively. Provisions for employee benefit obligations are periodically adjusted based on updated actuarial assumptions. The principle assumptions used in valuation of employee benefit obligations are the discount rate and the inflation rate.

Impairment of Goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8 to the financial statements for the year ended 31 December 2009.

Impairment of Long-Lived Assets

At each end of the reporting period management assesses whether there is any indication of impairment of long-lived assets, including property, plant and equipment, mineral rights, intangible assets and exploration and evaluation assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Since April 2009 steel and iron ore markets significantly improved including increased demand and prices and this trend has continued into 2011. The Group met its internal forecasts for 2010 and concluded that there were no indicators of impairment of long-lived assets at 31 December 2010.

BUSINESS

Overview

The Group is one of the largest iron ore and HBI producers and suppliers globally and the leading regional iron ore producer that extracts and exploits iron ore from the second largest measured iron ore reserve base in the world with approximately 14.9 billion tonnes of proven and probable reserves on a JORC equivalent basis and over 160 years of reserve life (being the ratio of reserves (proven and probable) to mined production as at 1 July 2010). In 2010, according to CRU, the Group was the fifth largest commercial iron ore producer in the world, the largest commercial iron ore producer in Europe and the CIS, the largest supplier of merchant HBI in the world, the largest producer of HBI/DRI in Europe, Russia and the CIS, and the fifth largest steel producer in Russia.

The Group is a global player in the production of beneficiated iron ore products, processing the majority of its primary iron ore concentrate production into value-added products, such as high-grade iron ore concentrate, iron ore pellets and HBI/DRI. In 2010, the Group accounted for the output of 36% of iron ore concentrate and sintering ore, 59% of iron ore pellets and 100% of HBI/DRI in Russia, producing approximately 36.8 million tonnes of sintering ore and concentrate, 22 million tonnes of iron ore pellets and 4.7 million tonnes of HBI/DRI. In the three months ended 31 March 2011, the Group produced approximately 9.9 million tonnes of sintering ore and concentrate, 5.7 million tonnes of iron ore pellets and 1.3 million tonnes of HBI/DRI.

The Group is also a leading regional and domestic producer of niche steel products, accounting in 2010 for approximately 9% of crude steel and steel products produced in Russia. In 2010, the Group produced approximately 6.1 million tonnes of crude steel and 5.4 million tonnes of value-added steel products including pipe billets, square billets and a variety of value-added products, such as hot-rolled steel sheets, heavy plates, strips for large diameter pipes, bridge construction steel, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. In the three months ended 31 March 2011, the Group produced approximately 1.5 million tonnes of crude steel and 1.3 million tonnes of value-added steel products.

The Group is organised into three integrated operating divisions focusing on mining operations, steel production and auxiliary businesses and other assets. The Mining Division comprises LGOK and MGOK, and the Steel Division comprises OEMK, Ural Steel and Ural Scrap Company. In addition to its mining and steel businesses, the Group owns several other auxiliary businesses and other assets that provide services and raw materials to the Mining and Steel Divisions. These include, in particular, trading, transportation, logistics and leasing services, as well as a steel rolling mill in the UAE. In addition to its principal operating divisions, the Group has a centralised sales and marketing function that coordinates the operating divisions' monitoring of markets, production strategy and external sales, enabling the Group to identify and exploit market synergies and improve operational efficiencies.

The Group's main production facilities at LGOK, MGOK and OEMK are well-positioned in the European part of Russia with ready access to an established infrastructure network and key domestic, regional and international markets, including Russia, CIS, Eastern Europe, the Middle East and Asia. Ural Steel is located in the Ural region of Russia in close proximity to Russian pipe producers. With its significant global, regional and domestic market positions throughout the entire mining production chain, and a leading position in the regional and domestic production of niche steel products, the Group has a wide portfolio of products and sells to customers in various industry sectors in both the domestic and export markets.

For the year ended 31 December 2010, the Group generated RUB 219,668 million in sales and RUB 78,595 million in Management EBITDA, of which the Mining Division generated RUB 60,382 million and the Steel Division generated RUB 14,205 million. For the three months ended 31 March 2011, the Group generated RUB 70,740 million in sales and RUB 26,923 million in Management EBITDA, of which the Mining Division generated RUB 21,555 million and the Steel Division generated RUB 4,597 million.

Strengths

Management believes that the Group benefits from a number of key strengths that should enable it to capitalise further on its leading position in the iron ore industry in the future. These strengths include:

The Group operates in the iron ore and HBI/DRI industry with highly attractive fundamentals.

The fundamentals of the iron ore market have continued to remain strong throughout 2010 and the beginning of 2011. Strong overall demand growth in recent years has led to a tightening of supply, with prices generally

increasing. The demand deficit continues to support iron ore prices and help sustain them at a level much higher than the average cash cost. This results in higher margins for the industry and a favourable environment for the introduction of new capacity by the leading players, at least in the short term.

Demand for iron ore and HBI/DRI is driven by growth in steel production, specifically growth in Electric Arc Furnace steelmaking. During 2010 and the first quarter of 2011, emerging markets in particular, such as Brazil, China, India and the Russian Federation, have experienced increased demand for steel as construction, machinery (including automotive) and other steel-intensive industrial sectors have grown. Management expects the global iron ore demand to continue growing strongly over the medium term with growth in GDP and steel production, especially in developing economies, as the main drivers. Demand recovery is also expected from developed countries, as production ramps up to pre-crisis levels.

In 2010 the Group derived over 48% of its sales and over 77% of its Management EBITDA from the sale of its iron ore products. HBI/DRI is the fastest growing iron ore segment both globally and in the CIS due to significant improvements in efficiency in the method of manufacturing steel that reduce the availability of ferrous scrap. There is a growing trend of substituting open-hearth steel production capacity with basic-oxygen and electric-arc steel making technologies, both of which improve the efficiency of the steelmaking process and require higher purity feedstock including HBI/DRI and ferrous scrap. As such, management expects an increasing number of EAFs to be constructed in the medium-term, increasing demand for ferrous scrap and HBI/DRI. Management expects the Russian Federation to become a net importer of ferrous scrap over the medium-term due to looming depletion of the domestic demand and CIS scrap resources (due both to consumption and short-term exports). Furthermore, installation of EAF capacities in the region in the medium-term may further increase the domestic for HBI/DRI in the CIS market. Moreover, the regional CIS steel market is a significant consumer of iron ore products and will benefit from gradually increased domestic demand driven by recovering investments in construction and infrastructure and recovered growth in steel intensive industries, including the oil and gas, automotive, ship manufacturing and other sectors. The Group is one of the largest producers of HBI/DRI globally, making it a supplier of choice for major consumers and positioning it to benefit from this trend.

The supply of iron ore has been widely constrained by delays in infrastructure development necessary to bring incremental volumes to market. Given the remote location of iron ore reserves throughout the world, the infrastructure required to bring the iron ore to market is often undeveloped, or has considerable bottlenecks for capacity increases, which typically take two to three years of lead time to resolve. Reduced spending on iron ore projects and related infrastructure in 2009 and 2010 due to the crisis and Russian government talks of higher mining taxes have placed further constraints on the supply side of the equation. Given these constraints, management believes that incremental expected demand for iron ore products over the next five years will not be met.

The iron ore industry is relatively consolidated (with the top three merchant producers accounting for more than 27% of global production and commanding more than 56% of the global seaborne market in 2010 according to CRU) providing suppliers with substantial bargaining power. This is evidenced by the increasing importance over the last couple of years of the spot market, which management expects to continue to grow further given the relative fragmentation of the steel industry (the top five producers amounting to approximately 18% of global steel production in 2010). See “Industry Overview—Iron Ore Industry—Iron Ore Price-Setting Mechanism” for a further discussion of the spot market.

These factors present existing producers with a robust pricing environment as is illustrated by the recent settlements and the substantial increases in iron ore prices. On average iron ore contract prices have increased by more than 30% during 2011 according to CRU data. In addition, the Chinese spot price has gained more than 52% from July 2010 through April 2011.

The Group is a top tier global iron ore producer with one of the two largest reserve bases in the world.

The Group has the second largest measured iron ore reserve base in the world and the largest reserve base in the CIS with over 14.9 billion tonnes of proven and probable reserves on a JORC equivalent basis, according to the IMC Reports.

The following table sets forth selected reserve data for the Group and its peers in the industry.

Company	Global proven and probable iron ore reserves as at 31 December 2010	Global measured, indicated and inferred resources as at 31 December 2010
	(million tonnes)	*(million tonnes)*
Vale**	15,078	N/A
The Group*	14,881	15,428
BHPB**	3,958	6,790
Rio Tinto	2,595	7,881
Metinvest	1,867	7,433
Evraz	1,712	N/A
FMG	1,540	2,835
Ferrexpo	1,502	4,751

Source: Based on published annual reports and/or interim operating results of respective companies.

Note: With companies referring to their reserves/resources by different standards, the data in this table is given as a best approximation to the following definitions: Reserves—deposits which are legally, economically and technically feasible to extract; Resources—deposits that are potentially valuable, and for which reasonable prospects exist for eventual economic extraction.

* *Measured and indicated only. The Group's reserves and measured and indicated resources were provided by IMC as at 1 July 2010.*

** *Net of shares of Samarco reserves, resources and production; BHPB reserves and resources as at 30 June 2010.*

The Group's reserve life (being the ratio of reserves (proven and probable) to mined production) is estimated to exceed 160 years (as at 1 July 2010) which is almost twice the reserve life of its nearest competitor. Management believes that the long life of reserves provides the Group with the flexibility to optimise the rate of monetisation of the reserve base by continuing to grow production going forward. As at 30 March 2011, the Group is the fifth largest commercial iron ore supplier globally behind Vale, Rio Tinto, BHP Billiton and FMG with approximately 36.8 million tonnes of saleable iron ore produced in 2010 and is the largest commercial iron ore producer in the CIS according to CRU.

The Group is positioned for significant growth through its focus on the high growth pellet and HBI/DRI markets.

The Group is well positioned for a significant growth profile due to both its product focus and market/customer focus. In 2009 the Group established a strategy of focusing on value added iron ore products, and in particular HBI/DRI in order to maximise profitable growth. The Group focuses on the cost efficient production of value-added iron ore products, processing more than 70% of its concentrate into pellets and HBI/DRI in 2010. HBI/DRI is a fast growing iron ore product and the Group has unique exposure to the HBI/DRI market especially in the emerging markets of the CIS, Eastern Europe, Asia and the Middle East. The Group is already the largest commercial HBI supplier globally with about 36% global market share (2009: 35%) and is the largest HBI/DRI producer in Europe, Russia and the CIS, according to CRU. Management believes the Group is well positioned geographically and commercially to continue to consolidate and increase its considerable market share globally and in emerging markets in HBI production.

The Group has a number of growth projects in the pipeline, the main of which form the first phase of the strategic development programme, will significantly enhance the Group's focus on the most value-added iron ore products and including the following:

(i) Increase in dried concentrate production up to 1.4 million tones. This will help to increase sales to Chinese partners and increase competitiveness of the Group in Chinese market further. The project is expected to be finalized by the end of 2011;

(ii) Installation of pelletisation machine #3 at MGOK, which is expected to provide 5.0 million tonnes of additional pellet production capacity by 2014. This will be further facilitated by the plans to increase hematite concentrate production at MGOK by 2.0 million tonnes per annum.

(iii) Increase HBI production capacity from 2.4 million tonnes as at 31 December 2010 to 4.2 million tonnes per annum in the medium term. The planned production ramp-up of 1.8 million tonnes per annum is expected to be achieved via construction of new HBI #3 plant.

The following title sets forth planned increases in the Group's production capacity.

	Annual production as at 31 December 2010	After implementation of the first phase of the strategic programme
	(million tonnes)	
LGOK—concentrate	19.8	22.0
LGOK—pellets	8.8	8.8
LGOK—HBI	2.3	4.2
MGOK—concentrate	15.3	19.5
MGOK—pellets	9.7	15.0
OEMK—DRI	2.4	2.7

Source: Management estimates.

The Group has a diversified customer base, focused on the emerging markets.

In addition to Russia, the Group has strategic access to the CIS, Eastern Europe, Asia and the Middle East and generated 83% of its revenues from sales to these markets in 2010. Management expects these markets to be the highest growth markets in terms of iron ore, HBI and steel consumption over the next five years.

The Group has developed long-term relationships with its customers focusing on these major markets and having entered into long-term contracts with some of the customers. Of particular note, the Group's key international customers include some of the world largest steel producers such as Tata Corus, ArcelorMittal, US Steel, Erdermir and Baosteel. The primary focus on the domestic iron ore and HBI markets was successfully enhanced by the increased exposure to the Western European and Middle-Eastern customers.

In addition, in 2009-2010 the Group further diversified its customer exposure by supplying its Asian customer base with both iron ore and HBI by railroad to China as well as seaborne shipments to China and other Asian countries.

The table below sets forth the Group's iron ore and HBI shipments (by volume) subject to new markets development for the year ended 31 December 2008 and for the three months ended 31 March 2011.

Region	For the year ended 31 December 2008	For the three months ended 31 March 2011
	Percentage of total	*Percentage of total*
Eastern Europe	58.9	28.8
CIS	18.8	3.3
China	14.5	41.3
Western Europe	4.8	14.2
Middle East	1.5	11.3
Far East (excl. China)	1.5	1.1
Total	**100.0**	**100.0**

Source: Company data

Since 2008, the Group has identified new markets and has begun supplying iron ore to China, Turkey, Western Europe, India, Bahrain, and Japan. In China, the main consumers of iron ore produced by LGOK and MGOK are Baosteel Group, Shagang Group, Hebei Jingye I&S, Tianjin Pipe, Liuzhou I&S, Yanshan I&S, Xilin Group, Jianlong I&S, and Anyang I&S. In Turkey, major consumers are Erdemir and Kardemir. In the UK and Holland, major consumers are plants within the Tata Steel Group. In Bahrain, the consumer is a plant owned by Gulf Industrial Investment Co. In France, Germany, Belgium, and Spain, major consumers are the plants of ArcelorMittal Group. In India, major consumers are Varrsana Ispat, Mono Steels and National, and in Japan, Kobe Steel.

In addition, the Group began using a new route for transporting iron ore to China by railroad through the Far East of Russia. In March 2009, the Mining Division began to supply iron ore to China through the Zabaikalsk border checkpoint. The major consumers of the supplied products are Xilin Group, Jinanlong I&S, Anyang I&S, and Shenyang I&S, located in the provinces of Heilongjiang and Hunan. In 2010, the volume of products supplied to

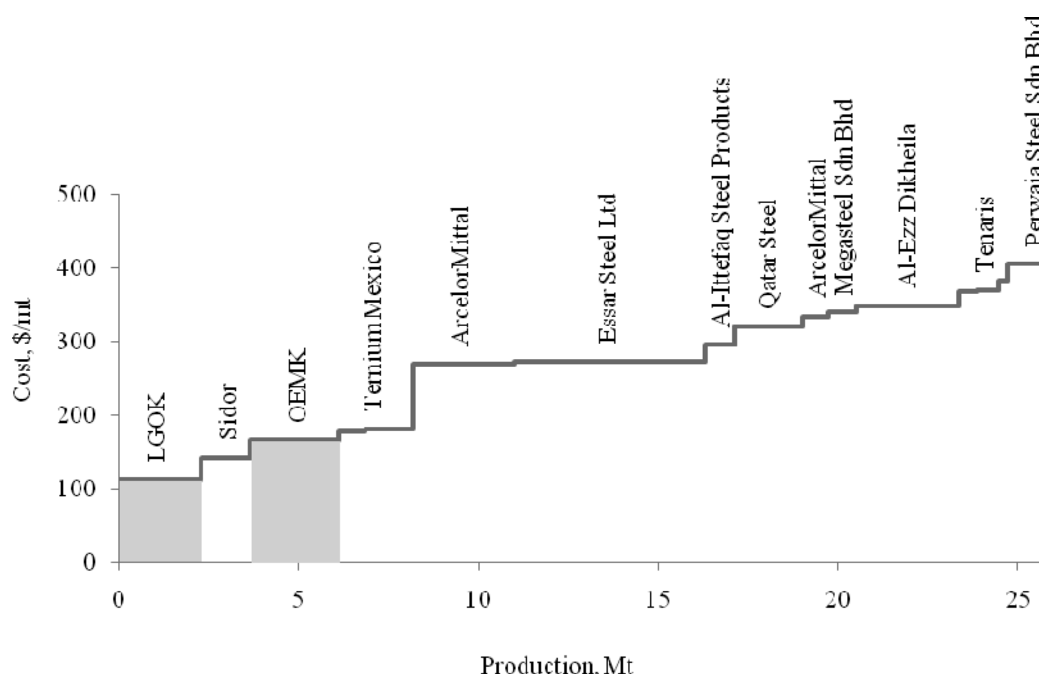
China through the Zabaikalsk border checkpoint amounted to 1.2 million tonnes (while in 2009 it totalled 1.0 million tonnes). During the first quarter of 2011, about 0.7 million tonnes of products were shipped through this checkpoint. In accordance with Resolutions of the Federal Tariff Service, in 2010-2011, a reducing coefficient of 0.76 is to be applied to the infrastructural component of the railway tariffs set in respect of transporting iron ore from the LGOK and MGOK railway stations

The Group operates with one of the lowest production cost bases globally.

The Group continues to enjoy low iron ore and HBI production cash costs in pellets and HBI, when compared with the key industry peers. In 2009, management implemented a cost management plan which achieved significant cost reduction in LGOK and MGOK. In particular, LGOK's average cash cost for wet concentrate shipped was reduced down to the lowest ever level for the Group. During 2010, management maintained relatively low cash costs despite rapid inflation globally in key input costs. Similar managerial cost management targets have been achieved for the Group's steel assets.

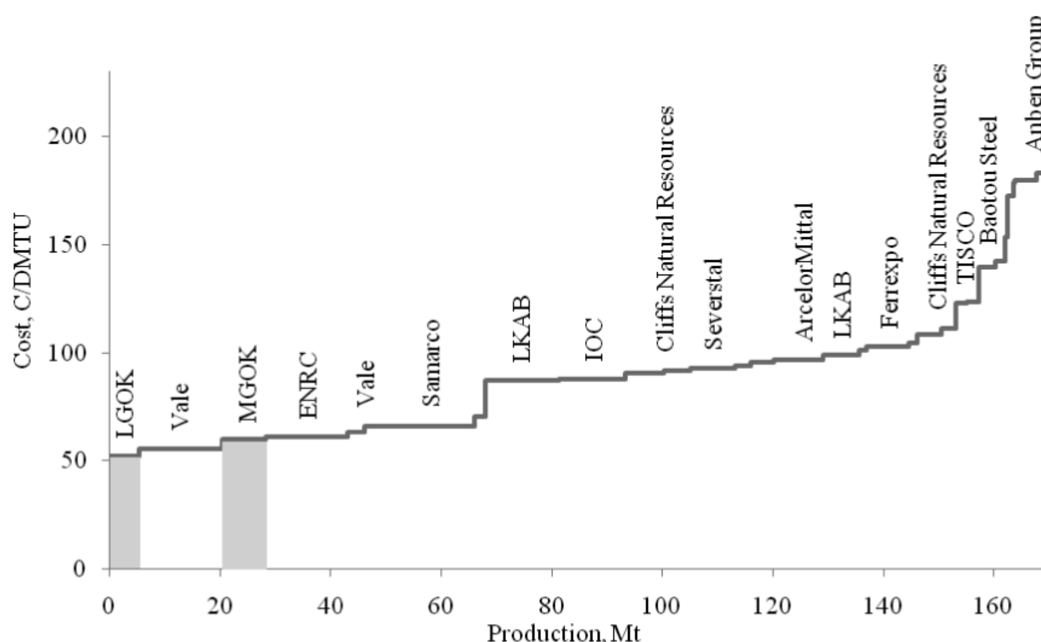
Operating costs provided by the Group for production of HBI/DRI and pellets have been placed on CRU's global cost curves for HBI/DRI and pellets. It should be noted that the production cost for MGOK (pellets only) and LGOK have not been calculated using the CRU model and are thus not truly comparable to those mills' costs which have been calculated through the model using the bottom-up approach.

The following chart presents the cost curve for HBI/DRI production in 2010 and demonstrates that the Group is positioned as the lowest cost producer:



Source: CRU; LGOK and OEMK costs are provided by the Group.

The following chart shows the curve for pellet production in 2010 and demonstrates that the Group is positioned in the first quartile:



Source: CRU; LGOK and MGOK costs are provided by the Group.

The abovementioned achievements in cost control allowed the Group to benefit not only from the improved earnings, but also to achieve the outstanding Management EBITDA margins which are paramount for the ferrous metals and mining industry. Thus the Group's Management EBITDA margins were 36% in 2010, with an improvement to 38% in the first quarter of 2011.

The Group has demonstrated strong financial performance and a prudent balance sheet position.

Management believes the Group came out of the recession as one of the most stable and sound iron ore businesses in the CIS and has benefited from the improved commodity environment over the past 24 months. In particular in 2009-2010, when the Group was focused on deleveraging its balance sheet during the financial crisis and consequent downturn in the iron and steel markets, it managed to decrease its gross debt position by RUB 51,549 million, from RUB 177,926 million at the end of 2008 down to RUB 126,377 million at the end of 2010. The Group's consolidated revenues in 2010 amounted to RUB 219,668 million, a 46% increase compared to revenues of RUB 150,372 million in 2009. Additionally, the Group's Management EBITDA in 2010 amounted to RUB 78,595 million, a 195% increase compared to Management EBITDA of RUB 26,612 million in 2009, almost doubling Management EBITDA margins from 18% to 36% and improving cash flow generation capability. The Group continued to maintain this strong financial performance during the first quarter of 2011 with a Management EBITDA margin of 38% compared with 26% in the first quarter of 2010. The Group will continue to implement cost reduction initiatives in order to further improve efficiency within its operations.

Management employs a conservative leverage policy which is reflected in the Group's balance sheet position with total debt of RUB 118,847 million as at 31 March 2011, and cash of RUB 10,659 million. This results in a total debt to Management EBITDA ratio of 1.3:1 (on the basis of Management EBITDA for the twelve months ended 31 March 2011) further supporting the strong balance sheet position, and providing the flexibility to pursue attractive investment opportunities as they arise, including selective acquisitions in the core segment or financing of existing investment projects; and maintain attractive fixed financing costs, which adds a degree of flexibility from a liquidity perspective in the event of prolonged market turbulence.

The Group has an established management team with a proven track record of delivering growth.

The Group benefits from the depth of experience of its senior and operational management teams. The Group's management structure is centralised within Metalloinvest Management Company, being the legal general director of the operating companies and having the functional focus on decision-making in the Group's strategy, mergers and acquisitions, investor relations as well as commercial, production, financial, human resources and project management sectors. The Group's senior management has a proven track record in implementing an anti-crisis programme, which helped lead to positive monthly Management EBITDA for all of the Group's operating companies in 2009. Similarly, management has been successful in generating growth, both organically and through acquisitions which are reflected in the Group's strong operational and financial performance.

The Group's operating and management teams have successfully managed the completion of several complex projects, including the implementation of different HBI/DRI technologies, such as a HYL HBI production unit at LGOK (completed in 2001), a MIDREX DRI unit at OEMK (completed in 1983) and another MIDREX unit at LGOK (completed at the end of 2007). Additionally, an oxygen injection technique has been successfully applied to the MIDREX unit at OEMK, which resulted in an 11% increase in production in 2007. In addition, a new rolling mill 350 was built at OEMK in 2002, followed by further modernisation in the form of a continuous casting machine completed in 2005 and a finalising line completed in 2010. At MGOK, flotation technology for high-grade concentrate production was implemented for the first time in Russia in 2007, while at Ural Steel, a modernised rolling mill 2800 and the EAF shop, which allowed the plant to enhance its domestic market shares of the strips for pipe industry and the bridge construction steel industry, respectively, were launched in the late 2008.

The Group's management has a proven track record in sector consolidation and has realised synergies within the Russian mining and steel industries, including the consolidation of the MGOK and Ural Steel groups into the Group in 2006. In addition, management successfully manages Group's financial investments, including the divestment of non-core business which have resulted in significant returns for the Group, as reflected by the Group's Mount Gibson investment in 2007 and Medusa Mining in 2008, which generated 114.2% and 111.7% annualised pre-tax return on investment, respectively.

STRATEGY

The Group's strategy is to consolidate and improve its position as a leading global commercial iron ore producer with a focus on further commercialising its reserve base and expanding its production of value-added iron ore and niche steel products. The Group aims to ensure a capital investment programme that is geared towards profitability over the business cycle, with each facility scrutinised in order to strike a balance between profitability and future growth opportunities as detailed below.

Focus on development projects which further enhance the Group's strong global position in iron ore and HBI/DRI.

According to CRU, global shipments of HBI/DRI have grown by a CAGR of 4.0% from 2004 to 2010. Given this rising demand to date, the Group has maintained focus on its most significant and profitable products in iron ore and HBI. According to CRU, the Group is already the largest commercial supplier and one of the largest producers of HBI globally, and the only HBI producer in Russia and the CIS. The Group is strategically well positioned to become the global leader in the HBI/DRI market due to its substantial reserve base, significant level of iron ore extraction and beneficiation, its access to relatively low-cost natural gas, and its implementation of DRI technology at LGOK and OEMK, as demonstrated by the construction and operation of two HBI plants at LGOK and research and development in the production of hematite ore concentrate at MGOK.

The Group's operational HBI plants #1 and #2 at LGOK began production in 2001 and 2007, respectively. HBI plant #1 operates HYL-III HBI technology with the capacity 1.0 million tonnes. HBI plant #2 operates MIDREX HBI technology with the capacity of 1.4 million tonnes. In 2010, LGOK produced approximately 2.3 million tonnes of HBI.

The Group's core growth projects in its development pipeline, which focus on iron ore and HBI, are as follows:

(i) In order to allow continuous concentrate handling, particularly in the winter, the Group intends to increase its dried concentrate production up to 1.4 million tonnes from the current level of 0.4 million tonnes.

Management believes this will help to increase sales to Chinese partners and increase competitiveness of the Group in Chinese market further. Implementation of this project has commenced, and completion is expected by the end of 2011.

(ii) The installation of pellet plant #3 at MGOK, which resumed in 2010, is expected to provide 5.0 million tonnes of additional pellet production capacity by 2014. This additional pellet production is expected to be further enhanced by planned development to increase hematite concentrate production at MGOK by 2.0 million tonnes per annum in the medium term, this project is currently under review by the board of directors.

(iii) Management intends to increase HBI capacity globally from 2.4 million tonnes as at 31 December 2010 to 4.2 million tonnes per annum in the medium term. The planned capacity ramp-up of 1.8 million tonnes per annum is expected to be achieved via construction of new HBI #3 plant and currently pending final approval by the board of directors.

(iv) In order to meet increased demand for HBI, the Group also intends to maintain flexibility to develop HBI plant #4 as well as pellet plant #5 for production of fluxed pellets, the main raw material for HBI, at LGOK and HBI plant #1 at MGOK. However, these remain subject to board approval and development in the pricing for HBI products.

Continue to develop and exploit the Group's existing reserve base and expand logistical capacity to strengthen its position in emerging markets.

The Group has the second largest iron ore reserve base in the world and one of the core strategies of the Group is to commercialise the value of these reserves through the development of the existing reserves base and improvement of the reserves utilisation. The Group plans to increase its crude iron ore production and, at the same time, to significantly increase the share of concentrate production in its overall output. The Group plans to implement several key investment projects in the Mining Division, which management believes will add significant value to the Group. The Group has identified specific projects to further exploit the Mining Division's existing reserve base and will utilise its experience in managing complex projects to implement these projects.

While continuing to serve the growing domestic demand for the Group's iron ore niche steel products and HBI, the Group intends to focus on expanding its sales to markets outside of Russia in order to achieve further growth and increase profitability. Management expects that the proportion of the Group's sales to emerging markets such as the CIS, Eastern Europe, China and the Middle East will increase with the majority of future growth coming from the Asian market. In 2010, the Group sold approximately 7% of its total HBI export production to China and approximately 10% of its HBI production to other countries in Asia (including, South Korea and Japan).

As part of the Group's strategy to increase exposure to high growth markets, Metalloinvest continues to focus on logistics and is considering construction of new seaport facilities in Black Sea to increase its exposure to high growth markets in the Middle East and also in Asia. The construction of these facilities, if implemented, could also secure sufficient logistical capacity to support production capacity development projects and satisfy projected growth in demand.

Continued development of new technologies to maintain cost efficient operations.

The Group is also in the process of implementing new projects allowing to utilise new processing technologies resulting in future improvement in per unit costs. The Group is currently considering the following projects:

(i) Hematite recovery from tailings of wet magnetic separation. Existing technologies from iron ore production in the CIS suffer from iron loss in the form of hematite, an iron oxide with unusual magnetic properties, which is not captured in wet magnetic separators and therefore dumped with the tailings. The Group is currently planning to implement expansion plans at MGOK which would add up to 2.0 million tonnes per year of hematite concentrate. MGOK's financial performance would be expected to improve as concentrate production from tailings does not require any additional mining, stripping or crushing costs.

(ii) Utilisation of oxidised quartzite for the recovery of hematite and magnetite. Current process dictates that iron containing oxidised quartzites are not processed to saleable products, and therefore subsequently dumped. The Group is currently considering some initiatives which, if implemented at MGOK, will add at least 10 million tonnes of concentrate per year without additional mining costs.

Maximising profitability of the Group's steel operations.

The Group is a significant player in the CIS region in a range of steel products such as pipe billets, heavy plates, bridge construction and ship building steel, strips for large diameter pipes, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry.

Although the Mining Division is currently the core profit generating unit, the Steel Division secures an additional market for internally produced iron ore and provides some diversification of earnings. Virtually all of the Steel Division's requirements for iron ore are supplied by LGOK and MGOK.

Crude steel production by OEMK has shown steady growth in the last 3 years. The plant produces high-quality steel products and is the only plant in the CIS which uses significant portion of DRI as a steelmaking feed. OEMK's model proved to be robust and well positioned for the downturn in the global economy. OEMK was the only steel mill in CIS operating at full capacity during the crisis. The Group intends to continue developing the implemented investment projects on OEMK. A new finishing line with a capacity of 300 thousand tonnes per annum on Rolling Mill 350 production unit was constructed in 2010. Ladle Furnace #3 was brought online in 2009 and an RH-vacuum degasser was put into operation in 2008. The reformer on DRI-1 plant has been recently modernised with the replacement of larger reaction pipes. This resulted in a significant increase in productivity from approximately 57 tonnes per hour before modernisation to approximately 104 tonnes per hour after. Management focuses on continuous improvement of OEMK's facilities and plans to increase crude steel capacity up to 3.85 million tonnes per annum in the medium term from its current level of 3.3 million tonnes per annum.

At Ural Steel, the Group has successfully implemented a reconstruction of the EAF and the Rolling Mill 2800 shops. Currently the plant is undergoing a gradual reconstruction and replacement of obsolete facilities. A new coke-oven battery #6 with capacity of 690 thousand tonnes per annum is under construction. The new battery will utilise dry quenching technology and have a dedusting system installed, making it more environmentally friendly. As a result, cost reductions can be expected due to on-site metallurgical coke production as opposed to purchasing materials from third parties. A vacuum degasser with capacity of 1.2 million tonnes per annum is being constructed in the EAF. This will result in an increase in the steel products range quality improvements, which will allow the Group to enhance its positions in its niche markets as well as access new markets.

In addition, the completion of the Hamriyah Steel 1 million tonne rebar mill in the UAE during 2010 will provide long-term strategic presence in what Management expects will be one of the high growth regions in the world over the medium term.

Further expand the Group's global mining activities with a focus on iron ore.

Management believes that it is essential for the Group to further consolidate its strong position in the mining industry in order to further enhance its competitive positioning and emerge as a global industry leader. Management is committed to building on the Group's existing strengths and presence, primarily in iron ore and within the mining sector in general, over the long-term. The Group will continue to consider only high quality opportunities beyond iron ore and steel where the Group's existing expertise and resources can be leveraged to add significant value and provide attractive return to shareholders.

Examples of the Group's value creation through its investment strategy are Mount Gibson Iron ("**MGX**") and Medusa Mining. The Group invested in MGX an Australian iron ore producer, in June 2007, purchasing a 19.5% stake for U.S.$120 million. The Group's investment in MGX initially represented a strategic geographical diversification of the Group's iron ore portfolio and an important step toward its participation in iron ore supplies to China. The Group divested the stake in April 2008 primarily to realize a significant investment profit. Upon the sale of this stake, the Group earned U.S.$252 million in pre-tax profit. A 12% stake in Medusa Mining was bought in April 2008 for U.S.$20 million and subsequently sold in October 2009 for U.S.$52 million.

The Udokan copper deposit represents an opportunity to diversify the Group's business mix with a long-term and significant level of potential production of an attractive commodity. With estimated 20 million tonnes of contained copper reserves, Udokan is the largest copper deposit in Russia and one of the largest globally. The copper deposit is strategically located in close proximity to China, which would facilitate transport to Asian markets, where demand is expected to be robust. A Board decision on the development of the project will be taken upon completion of the technical feasibility study expected in 2012. Any estimates regarding required

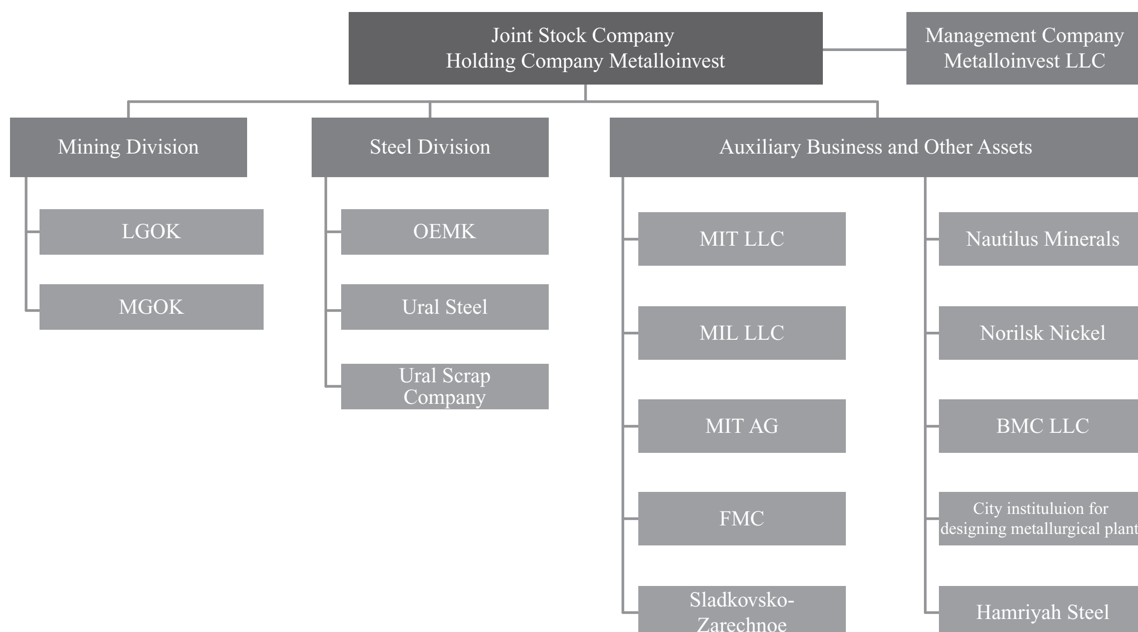
capital expenditures for such development are not yet final. The Group is considering a variety of funding options including equity, debt, a combination of equity and debt, project finance and other types of financing. The Group is also considering a spin-off the asset.

Group History and Structure

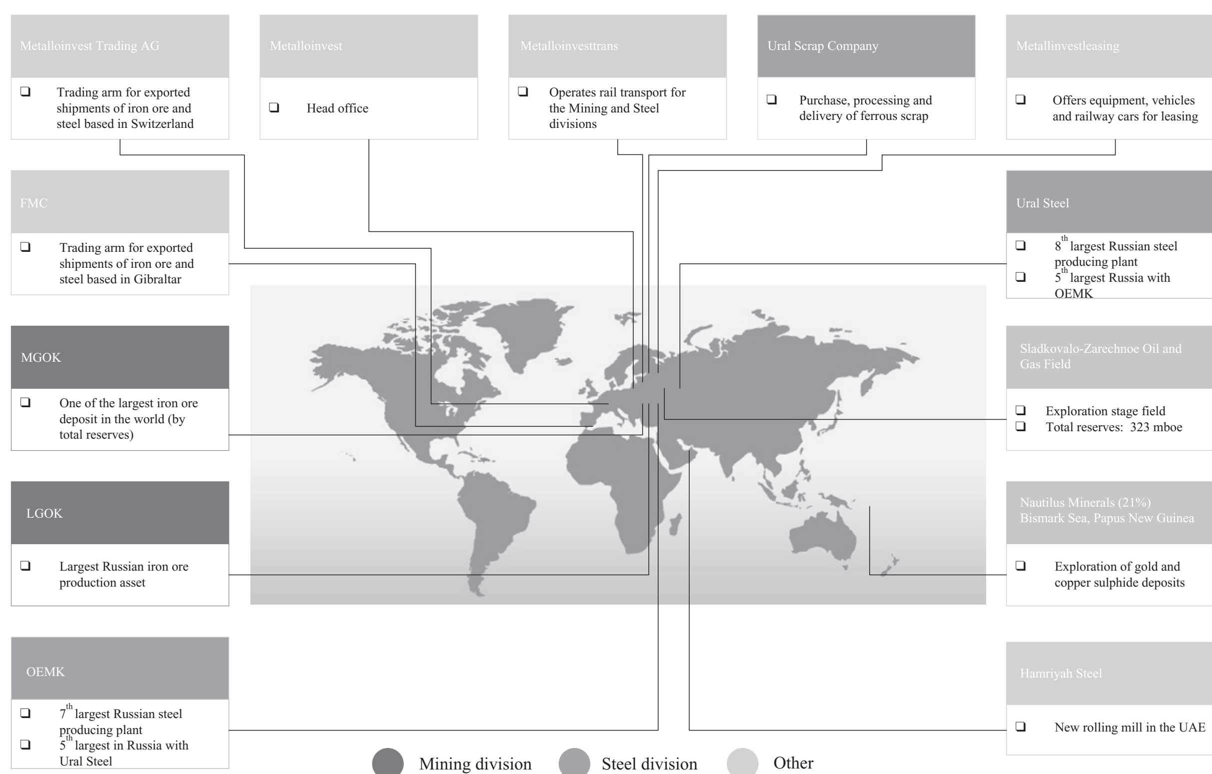
The Group's principal operating assets have been extracting iron ore and producing steel products for nearly 50 years.

The Group's current corporate structure is the result of a series of major acquisitions in the steel and mining industries which reflect the coordinated long-term strategic vision of the Group's shareholders. Alisher Usmanov and his partners acquired OEMK in 1995 and LGOK in 1999, both of which were consolidated in 2000 under CJSC GAZMETALL ("**Gazmetall**"). Separately, Mr Usmanov acquired 50% of Ural Steel in 2002 and purchased the remaining 50% in 2004. In 2005, Mr Usmanov, together with his partners, jointly acquired MGOK and combined it with Ural Steel under one brand name, Metalloinvest. During 2006, the Group entered into a series of transactions resulting in the acquisition of MGOK and Ural Steel by LGOK and OEMK. The consolidation of MGOK into the Group was completed in 2006. Mr Usmanov remains the principal shareholder of the Group, indirectly owning 45% of the Parent's outstanding shares. The rest of the Parent is owned by Vladimir Scotch (30%), Vasiliy Anisimov (20%) and Farhad Moshiri (5%). See "Principal Shareholders".

The following chart represents the current organisational and operational structure of the Group.



The following map shows the Group's operating facilities:



MINING DIVISION

Overview

The Group's Mining Division comprises LGOK and MGOK, the two largest iron ore mining and processing facilities (by production volume) in Russia, according to Rudprom. LGOK and MGOK extract and exploit iron ore from the second largest measured iron ore reserve base in the world, with approximately 14.9 billion tonnes of proven and probable reserves as at 1 July 2010 on a JORC equivalent basis and over 160 years of reserve life (as at 1 July 2010). According to CRU, in 2010, the Group was the fifth largest commercial iron ore producer in the world, the largest commercial iron ore producer in Europe and the CIS, the largest supplier of merchant HBI in the world and the largest producer of HBI/DRI in Europe, Russia and the CIS.

The Group is a global-scale producer of beneficiated iron ore products, processing the majority of its primary iron ore concentrate production into value-added products, such as high-grade iron ore concentrate, iron ore pellets and HBI/DRI. In 2010, according to Rudprom, the Group accounted for the output of 36% of iron ore concentrate and sintering ore, 59% of iron ore pellets and 100% of HBI/DRI in Russia, producing approximately 36.8 million tonnes of sintering ore and concentrate, 22.0 million tonnes of iron ore pellets and 4.7 million tonnes of HBI/DRI. In the three months ended 31 March 2011, the Group produced approximately 9.9 million tonnes of sintering ore and concentrate, 5.7 million tonnes of iron ore pellets and 1.3 million tonnes of HBI/DRI.

LGOK is Russia's largest iron ore production facility (on the basis of production volume), according to Rudprom, with an output of approximately 19.8 million tonnes of iron ore concentrate and 8.8 million tonnes of iron ore pellets and an 20% share of annual output of sintering ore and concentrate in Russia in 2010. LGOK has significant iron ore reserves of approximately 4.2 billion tonnes on a JORC equivalent basis. LGOK is the only Russian producer of HBI, a direct substitute for ferrous scrap materials, which does not contain impurities such as nonferrous metals. Management is considering substantial expansion of HBI production at LGOK in order to meet growing demand in the CIS, Europe, Asia and the Middle East, and expects the Group to remain a global leader in HBI production. See "—Mining Division Modernisation and Investment Programme".

MGOK is Russia's second largest iron ore production facility (on the basis of production volume), according to Rudprom, with an output of approximately 15.3 million tonnes of concentrate and 9.7 million tonnes of iron ore pellets in 2010. MGOK operates in a single open pit mine with reserves totalling approximately 10.7 billion

tonnes on a JORC equivalent basis. MGOK produced approximately 17.0 million tonnes of sintering ore and concentrate in 2010, or approximately 17% of the annual output of sintering ore and concentrate in Russia in 2010, according to Rudprom.

The table below shows the Mining Division's main product categories and its output for principal products for the years ended 31 December 2008, 2009 and 2011 and the three months ended 31 March 2010 and 2011:

Production	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Iron Ore Mining					
Crude iron ore	92,528	79,006	91,514	21,966	24,507
High grade iron ore	2,442	1,439	1,623	415	523
Ordinary iron ore	90,086	77,567	89,892	21,551	23,984
Crushing and Sorting					
Blast-furnace ore	534	714	384	92	86
Sintering ore	2,009	1,130	1,308	307	428
Beneficiation					
Ordinary iron ore concentrate	35,367	29,881	35,140	8,292	9,412
Blast-furnace concentrate	975	898	750	408	513
High grade iron ore concentrate	7,603	8,066	8,851	2,290	2,516
Dried concentrate	1,531	2,041	1,561	923	928
Pelletisation					
Non-fluxed pellets	12,490	11,338	13,153	3,054	3,212
Fluxed pellets	4,013	4,661	5,332	1,391	1,516
HBI Production					
HBI	2,114	2,165	2,271	578	618
Other					
Screenings of pellets and HBI Fines	517	419	427	103	118

Reserves and Resources Summary according to the JORC Code

The table below summarises the Mining Division's iron ore reserves and resources on a JORC equivalent basis on 1 July 2010:

	JORC equivalent basis Proven and Probable Reserves	JORC equivalent basis Measured and Indicated Resources
	(million tonnes)	*(million tonnes)*
LGOK	4.2	4.6
MGOK	10.7[(1)]	10.8[(1)]
Total	**14.9**	**15.4**

(1) Includes oxidised quartzites.

Source: IMC

Management believes that the Mining Division's proven and probable reserves are sufficient to satisfy the Group's requirements for approximately 160 years based on current production levels.

The Group holds licences to the second largest proven and probable iron ore reserves in the world, according to CRU, with open-pit mines that have been developing the Kursk Magnetic Anomaly for nearly 50 years. LGOK's and MGOK's iron ore deposits largely consist of magnetite deposits that have an average iron content of 34% and 39%, respectively, which, according to the State Reserves Committee, is higher than the average iron content of other CIS mining companies which develop magnetite deposits. However, the iron content of the Group's proven and probable iron ore reserves is lower than the average iron content of international competitors developing hematite deposits.

The Mining Division's proven and probable iron ore reserves are calculated by the Group and reviewed by IMC. As at 1 July 2010, on a JORC equivalent basis, LGOK had proven and probable reserves of 4.2 billion tonnes, and MGOK had proven and probable reserves of 10.7 billion tonnes.

LGOK

LGOK is the largest iron ore extraction and beneficiation operation in Russia, according to Rudprom, and operates the world's largest open-pit iron ore mine located in Gubkin in the Belgorod region, which is approximately 600 kilometres southwest of Moscow. As at 1 July 2010, LGOK had proven and probable iron ore reserves of 4.2 billion tonnes on a JORC equivalent basis. Management believes that the iron content in LGOK's ordinary iron ore concentrate and fluxed pellets (68.0% and 66.5%, respectively) is the highest in Russia.

LGOK is a leading manufacturer of iron ore products in Russia with a 20% share of the country's annual output of sintering ore and concentrate in 2010, according to Rudprom. LGOK is the only HBI producer in Russia and the CIS. LGOK's HBI operations began in 2001 with the opening of the HYL-III facility, which has a production capacity of 1.0 million tonnes of HBI per year. In 2007, LGOK completed the construction of HBI plant #2, utilising MIDREX technology, with a production capacity of 1.4 million tonnes of HBI per year. LGOK's current capacity is 2.4 million tonnes of HBI per year.

History

LGOK's construction was approved by the former Soviet government on 20 July 1967. In 1971, LGOK began operating, and, in 1972, iron ore concentrate production began at the beneficiation plant. The pellet plant began commercial production in 1975 and in 1982 the re-dressing plant was put into service producing feed stock for steel making at nearby OEMK. In 1992, LGOK was transformed into a joint stock company. In 2001, the first HBI plant achieved design capacity. By 2003, LGOK had extracted 1 billion tonnes of iron ore. The second HBI plant began production late in 2007 and is currently operating at full capacity.

LGOK was acquired by the Group in 1999. See "—Group History and Structure".

Reserves and Resources

As at 1 July 2010, LGOK's total proven and probable reserves were approximately 4.2 billion tonnes at a grade of 34% total iron content on a JORC equivalent basis. Total measured and indicated resources were approximately 4.6 billion tonnes.

The mining operations of LGOK are mature, after some 40 years of operation in the current pit. LGOK holds a mining licence which grants the right to mine ferruginous quartzites of the Lebedinsky and Stoilo-Lebedinsky deposits until 1 January 2016 and also holds land-use licences and land area permits. Under Russian law, LGOK has the right to extend the licence term on expiry, provided it has complied with its licence conditions.

Overview of Iron Ore Production Facilities, Process and Products

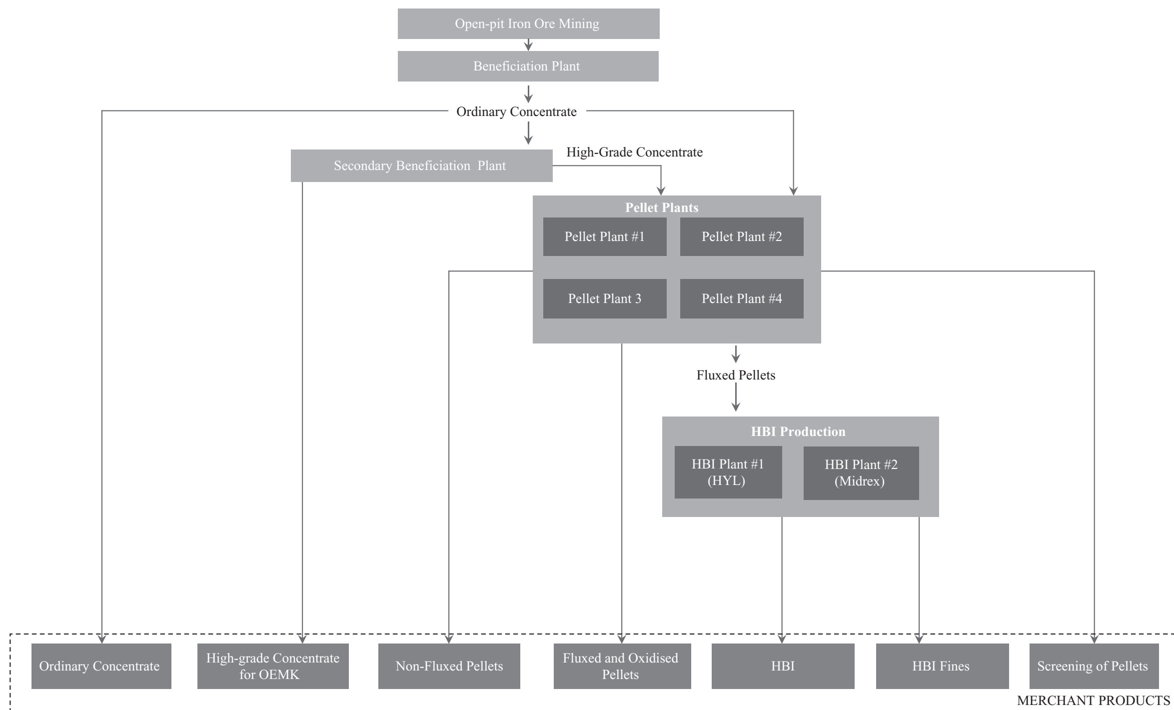
The table below shows LGOK's main product categories and its output for each product for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Iron Ore Mining					
Crude iron ore	47,559	38,614	47,362	10,581	12,760
Beneficiation					
Ordinary iron ore concentrate	19,732	16,040	19,829	4,400	5,400
High grade iron ore concentrate	7,076	6,522	6,812	1,712	1,840
Dried iron ore concentrate	105	394	381	200	219
Pelletisation					
Non-fluxed pellets	4,477	4,265	5,298	1,240	1,352
Fluxed pellets	3,501	3,267	3,485	866	898
HBI Production					
HBI	2,114	2,165	2,271	578	618
Other					
Screenings of pellets and HBI fines	517	419	427	103	118

LGOK operates as an integrated mining company whose operations encompass iron ore extraction facilities and secondary processing facilities, including beneficiation and secondary beneficiation plants, a pellet plant and two HBI plants.

In 2010, LGOK produced approximately 47.4 million tonnes of crude iron ore, 19.8 million tonnes of ordinary iron ore concentrate, 6.8 million tonnes of high grade iron ore concentrate, 8.8 million tonnes of iron ore pellets and 2.3 million tonnes of HBI.

The following chart illustrates the principal steps in the production process of LGOK's iron ore extraction and secondary iron ore products, which are explained in further detail below:



Iron Ore Mining

Facilities and Process

LGOK's iron ore mining operations consist of a single open pit mine. The mine makes extensive use of electronic technology, including a production blast-hole logging system, geological databases, a mine planning system, an in-pit truck dispatch system and a GPS tracking system for rail locomotives.

Mining operations are divided into two types: soft overburden operations and hard material operations. Overburden is stripped using equipment that includes hydraulic monitors, draglines and shovels. Trucks dump the extracted material at in-pit transfer points, where it is loaded into rail wagons and hauled out of the pit. Chalk and sand are removed either with monitors or with draglines or shovels during the loading into rail wagons.

The material underlying the soft overburden is classified as hard material and requires loosening via drilling and blasting. The hard material comprises iron ore, quartzites and barren schists with occasional quartz porphyrite dykes of variable thickness. The blasted material is loaded onto dump trucks and dumped in one of two designated dumps within the open pit for hard material and loose material, respectively and hauled to LGOK's beneficiation plant for further processing.

Products

Crude Iron Ore

The following table details LGOK's crude iron ore extraction during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Crude iron ore	47,559	38,614	47,362	10,581	12,760
% sold externally	0%	0%	0%	0%	0%

LGOK's crude iron ore has an average iron content of approximately 34%.

LGOK retains all of the crude iron ore it extracts for further processing within the Group.

Beneficiation

Facilities and Process

LGOK initially processes its extracted iron ore at its beneficiation plant, which has a production capacity of 22.0 million tonnes per year of ordinary iron ore concentrate. The beneficiation plant, a 1.2 kilometre long building, contains three different processing workshops for the beneficiation of the crushed ore, consisting of primary crushing, three-stage milling and classifying and five-stage intensive magnetic separation, as well as a fourth workshop that refines the iron ore concentrate.

Mined ore is transported from the mine by rail and unloaded at either of two identical primary crushing stations before being passed through a series of cone crushers on conveyor belts. The crushed ore is then loaded into storage bunkers which are located in the beneficiation plant. This crushed ore is then processed in the workshops. The first workshop contains wet autogenous mills, which are fitted with drum screens. The separated ore pebbles are then further separated in the second workshop using ore-pebble mills with banks of hydro cyclones and magnetic separators. The third workshop prepares the separated ore for refinement into iron ore concentrate.

The separated ore is then fed into a fourth workshop which refines the ore into high-grade and ordinary iron ore concentrate. The high-grade concentrate is split into two flows with the help of a slurry extractor. One flow feeds the high-grade iron concentrate directly to OEMK via a 26 kilometre slurry pipeline. The other flow is used by LGOK in the production of iron ore pellets and thereafter HBI. The ordinary iron ore concentrate is sold to third parties or flows to LGOK's secondary beneficiation plant for further processing to produce high-grade iron ore concentrate.

Products

Ordinary Iron Ore Concentrate

The following table details LGOK's ordinary iron ore concentrate production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Ordinary iron ore concentrate	19,732	16,040	19,829	4,400	5,400
% sold externally	30%	16%	24%	18%	28%

LGOK produces ordinary iron ore concentrate with an average iron content of 68%. It is non-toxic, flame-proof and explosion-proof, with low levels of sulphur, phosphorus and titanium oxide.

The majority of LGOK's ordinary iron ore concentrate production is retained for further processing into high grade concentrate, or directly into pellets at LGOK or the production of sinter at Ural Steel. The balance is sold to third party integrated iron and steel works for sintering.

High-Grade Iron Ore Concentrate

The following table details LGOK's production of high-grade iron ore concentrate during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
High grade iron ore concentrate	7,076	6,522	6,812	1,712	1,840
% sold externally	0%	0%	0%	0%	0%

LGOK produces high-grade iron ore concentrate that has an average iron content of approximately 70%. High grade iron ore concentrate is produced from ordinary concentrate at the secondary beneficiation plant.

The Group retains all of its high-grade iron ore concentrate for further processing, with approximately half being transported to OEMK for DRI production and steelmaking via a slurry pipeline and the balance being retained at LGOK for pellet and HBI production.

Dried Iron Ore Concentrate

The following table details LGOK's production of dried iron ore concentrate during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Dried iron ore concentrate	105	394	381	200	219
% sold externally	98%	99%	97%	100%	100%

LGOK produces a relatively small, but increasing, amount of dried ordinary iron ore concentrate, with an average iron content of approximately 68%, for use in sinter production. Dried concentrate is easier to transport and unload during winter. Generally, dried concentrate is produced from late autumn till early spring.

Historically, the Group has sold all or virtually all of its dried iron ore concentrate to third party integrated iron and steel works located in the Urals and Siberia during the winter.

Pelletisation

Facilities and Process

In 2010, approximately 50% of the total iron ore concentrate produced during the beneficiation process was fed into LGOK's pellet plant, which produces non-fluxed and fluxed pellets that are either used in blast furnaces or hot metal production. Fluxed pellets, which are mixed with a flux and allow for decreased smelting times and coke consumption, are used in direct reduction furnaces, as well as in traditional blast furnaces; in contrast, non-fluxed pellets are used in blast-furnace production.

LGOK's pellet plant consists of four processing lines: two lines equipped with six pellet discs and two with five discs.

The process of iron ore pelletisation comprises three main steps: raw material preparation, formation of green pellets and pellet roasting. First, the iron ore concentrate is mixed with small amounts of binding agents in continuously working rotary mixers and drum mixers. Then, the mixture is formed into green pellets on pelletisation discs connected to roller screens, which control the size of the pellets. Finally, the green pellets are hardened through thermal roasting.

Products

Non-Fluxed Pellets

The following table details the Group's non-fluxed pellet production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Non-fluxed pellets	4,477	4,265	5,298	1,240	1,352
% sold externally	72%	99%	80%	85%	73%

LGOK produces non-fluxed pellets that have an average iron content of 66% out of ordinary iron ore concentrate.

Most, and in 2009, nearly all, of the Group's non-fluxed pellet production is sold to third party integrated iron and steel works for use in blast furnaces. The balance is sold to Ural Steel for its hot metal production.

Fluxed Pellets

The following table details the Group's fluxed pellet production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Fluxed pellets	3,501	3,267	3,485	866	898
% sold externally	17%	0%	0%	0%	0%

LGOK produces fluxed pellets with an average iron content of 66.5% out of high-grade iron ore concentrate. Fluxed pellets are used in the production of HBI/DRI.

As the Group has increased its HBI/DRI production, since 2009, it has retained all of its fluxed pellets for further processing.

HBI Production

Process and Facilities

HBI serves as feed stock for the manufacturing of economical, high-grade steel products and as a replacement raw material for scrap metal in both EAF and BOF processes. LGOK produces 100% of the HBI produced in Europe and the CIS in its two HBI plants, with a combined capacity of 2.4 million tonnes per year.

HBI Plant #1 is equipped with HYL-III technology and has a capacity of 1.0 million tonnes per year. It has been operated by LGOK since 2001 and was built by the German company Ferrostal.

HBI Plant #2 is equipped with MIDREX technology and has a capacity of 1.4 million tonnes per year. The second HBI facility began production late in 2007 and is currently operating at full capacity.

HBI capacity is expected to be increased by 1.8 million to 2.0 million tonnes per annum by 2015 via construction of new HBI Plant #3 and currently pending final approval by the board of directors. See "—Mining Division Modernisation and Investment Programme".

Products

The following table details LGOK's HBI production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
HBI	2,114	2,165	2,271	578	618
% sold externally	97%	86%	89%	84%	92%

The average iron content of LGOK's HBI is approximately 90.6%, with a metallisation rate of approximately 93.7% and low sulphur and phosphorus content.

The Group sells the substantial majority of its HBI production to external steel works. The balance is sold to OEMK and Ural Steel for use in their respective EAF shops.

Other

The following table details LGOK's production of by-products of ore processing, including screening of iron ore pellets and HBI fines, during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Screenings of pellets and HBI fines	517	419	427	103	118
% sold externally	25%	11%	6%	9%	3%

By-products of LGOK's beneficiation processes are used in sinter production.

The Group sells a small portion of these by-products to third parties for sintering, retaining the majority for further processing.

MGOK

MGOK is the second largest iron ore extraction and processing operation in Russia, after LGOK, with a 17% market share of annual output of sintering ore and concentrate, according to Rudprom, and operates three open pit mines located in Zheleznogorsk in the Kursk region. MGOK has the largest measured proven and probable iron ore reserves in Russia with 10.7 billion tonnes on a JORC equivalent basis.

History

The open pit mine developed by MGOK at the Kursk Magnetic Anomaly has been in operation since 1960, when the first high-grade iron ore was extracted. In 1961, a crushing and sorting plant for sintering ore production was put into operation. The first iron ore concentrate was produced at the crushing and dressing complex in 1973. The first roasted pellets were made at the pelletisation plant in 1976. In 1978, the shaped casting facility for iron, steel and non-ferrous casting was commissioned at MGOK's mining equipment repair plant. In 1993, MGOK was converted into a joint stock company. The construction of the plant for emulsion explosives components production was completed in 2001. In 2004, the billionth tonne of iron ore was extracted since the date of foundation of the mine. In 2006, the flotation technology of magnetite concentrate re-dressing was put into production, and in 2007 construction of pelletising machine #3 for iron ore pellets production was commenced at the pellet plant. In 2007, MGOK also began operating a flotation unit designed to boost the output of hematite concentrate from the tails of its own magnetite concentrate production; this unit is being used to produce high-grade concentrate for flotated high grade iron ore pellets. In 2008 the first hematite concentrate was produced from the current production wastes at the crushing and dressing complex. In 2010, MGOK commenced construction of what is expected to be the largest pelletising plant in Russia with capacity of 5.0 million tonnes per annum.

MGOK was acquired by the Group in 2006. See "—Group History and Structure".

Reserves and Resources

As at 1 July 2010, MGOK's total proven and probable reserves amounted to 10.7 billion tonnes of iron ore on a JORC equivalent basis at a grade of 39% total iron. Total measured and indicated resources amounted to 10.8 billion tonnes on a JORC equivalent basis at a grade of 39.6% total iron. These measures included oxidised quartzite at a grade of 40.2%, for which a viable process route may be identified in the future.

MGOK holds a mining licence which is valid until 30 November 2016. It allows for the mining of iron ores within the licence area. Under Russian law, MGOK has the right to extend the licence term on expiry, provided it has complied with its licence conditions.

Overview of Iron Ore Production Facilities, Process and Products

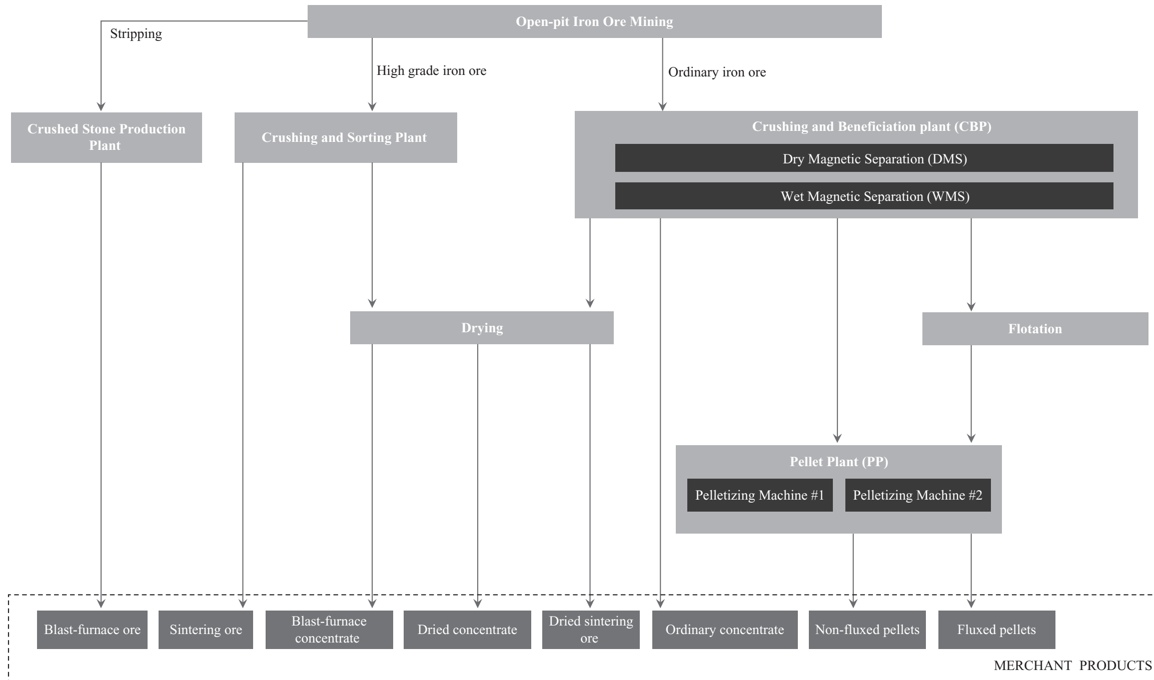
The table below shows MGOK's main product categories and its output for each product for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three Months ended 31 March	
Production	**2008**	**2009**	**2010**	**2010**	**2011**
	(thousand tonnes)				
Iron Ore Mining					
Crude iron ore	44,969	40,392	44,152	11,385	11,747
High grade iron ore	2,442	1,439	1,623	415	523
Ordinary iron ore	42,527	38,953	42,530	10,970	11,224
Crushing and Sorting					
Blast-furnace ore	534	714	384	92	86
Sintering ore	2,009	1,130	1,308	307	428
Beneficiation					
Ordinary iron ore concentrate	15,635	13,841	15,311	3,892	4,012
Blast-furnace concentrate	975	898	750	408	513
High-grade concentrate	527	1,544	2,039	578	676
Dried concentrate	1,426	1,647	1,180	723	709
Pelletisation					
Non-fluxed pellets	8,013	7,073	7,855	1,814	1,860
Fluxed pellets	512	1,394	1,847	525	618

MGOK operates as an integrated mining company whose operations include iron ore extraction facilities and secondary processing facilities, including crushing and sorting facilities, beneficiation plants and a pellet plant.

In 2010, MGOK produced approximately 44.2 million tonnes of crude iron ore, 15.3 million tonnes of ordinary concentrate and 9.7 million tonnes of iron ore pellets. MGOK produces a wide range of products, including concentrate and iron ore pellets, as well as blast-furnace and sintering ore.

The following chart illustrates the principal steps in the production process of MGOK's iron ore extraction and secondary iron ore products, which are explained in further detail below:



Iron Ore Mining

Facilities and Process

MGOK's iron ore mining operations consist of a large open pit mine and two smaller open pit mines. In 2008, 2009 and 2010, MGOK extracted 45.0 million, 40.4 million and 44.2 million tonnes, respectively, of unprocessed iron ore from its mines and in the three months ended 31 March 2011, extracted 11.7 million tonnes. MGOK produces two forms of iron ore: a high-grade ore, which is formed from weathered ore and enriched ferruginous quartzite and is largely hematite, and ordinary iron ore from which magnetite is extracted.

MGOK's mining operations are split into two types: soft overburden operations and hard material operations. Overburden is stripped with hydraulic monitors, draglines and shovels. Iron ore, waste and other hard materials are drilled and blasted.

The blasted material is loaded onto dump trucks and dumped in one of 12 designated in-pit stockpiles or reloading pits. The ore stockpiles facilitate blending and the ore is then conveyed by electric rope-shovels onto rail wagons and transported to the processing plants or one of the dumps.

In 2008, MGOK started extracting additional iron ore from hematite ore to increase the yield and quality of MGOK's crude iron ore. A flotation plant was brought online in 2007 to increase hematite ore production from the tailings of wet magnetite concentrate. This unit has instead been used over 2007-2008 to produce additional magnetite concentrate of enhanced quality. In 2009-2010, the flotation unit was switched over to produce floated concentrate utilized for high grade iron ore pellets for supply to US Steel Kosice.

Products

Crude Iron Ore

The following table details MGOK's high grade and ordinary iron ore extraction during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
High grade iron ore	2,442	1,439	1,623	415	523
% sold externally	0%	0%	0%	0%	0%
Ordinary iron ore	42,527	38,953	42,530	10,970	11,224
% sold externally	0%	0%	0%	0%	0%

MGOK extracts high-grade crude iron ore with an average iron content of approximately 51% and ordinary ore with an average iron content of approximately 39%.

All of the crude iron ore is retained by the Group for further processing into blast-furnace ore, sintering ore (in the case of high-grade iron ore only), concentrate or iron ore pellets. High-grade iron ore comprised 5.4%, 3.6% and 3.7% of the crude ore extracted in 2008, 2009 and 2010, respectively, and 4.5% in the three months ended 31 March 2011.

Crushing and Sorting

Facilities and Process

MGOK operates a crushing and sorting plant to process high-grade iron ore. In 2010, this plant produced 1.7 million tonnes of blast furnace ore and sintering ore and operated on the basis of specific customer orders. The ore is crushed by three separate crushers, which separate the ore into intermediate sintering ore and blast-furnace ore. High-grade iron ore is blended in the ore bedding yard of the mine department and sintering product is blended in the storage yard of the crushing and sorting plant. Ore with the lowest iron content is shipped to customers outside of the Group as blast-furnace ore.

The drying section of the plant is only operated during the winter months and is used for drying ore, blast furnace feedstock and for drying concentrate. The drying section uses natural gas as the heating fuel.

Products

Blast-furnace Ore

The following table details MGOK's blast-furnace ore production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Blast-furnace ore	534	714	384	92	86
% sold externally	97%	100%	100%	90%	62%

MGOK's blast-furnace ore has an average iron content of approximately 40%.

Historically, nearly all of MGOK's blast-furnace ore concentrate production has been sold to third parties, but more recently MGOK has retained it for further processing.

Sintering Ore

The following table details MGOK's sintering ore production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Sintering ore	2,009	1,130	1,308	307	428
% sold externally	70%	53%	57%	58%	62%

MGOK's sintering ore has an average iron content of approximately 52%.

Historically, MGOK has sold the majority of its sintering ore externally, with the balance being split between Ural Steel and internal consumption for blast furnace concentrate production.

Beneficiation

Facilities and Process

MGOK's ordinary iron ore is processed at its crushing and beneficiation plant, which consists of dry magnetic separation and wet magnetic separation facilities. Ordinary iron ore, which is banded magnetite-quartzite and hematite-quartzite, is fed into the crushing and sorting plant. This blended, low grade ore undergoes crushing, grinding and magnetic separation. The crushing and beneficiation plant produces iron ore magnetite concentrate that is transported within MGOK for processing into iron ore pellets or sold to customers outside of the Group.

Products

Ordinary Iron Ore Concentrate

The following table details MGOK's ordinary iron ore concentrate production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Ordinary iron ore concentrate	15,635	13,841	15,311	3,892	4,012
% sold externally	24%	13%	16%	3%	0%

MGOK produces ordinary iron ore concentrate, for use in iron ore pellets and sinter production, with an average iron content of approximately 66% with low levels of sulphur and phosphorus.

Historically, MGOK has retained most of its ordinary iron ore concentrate for production of iron ore pellets, blast-furnace concentrate and dried concentrate at MGOK, with a small portion being sold to its domestic and international customers. In January, February and March, MGOK usually processes ordinary concentrate to dried concentrate for sales purposes.

Blast-furnace Concentrate

The following table details MGOK's blast-furnace concentrate production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Blast-furnace concentrate	975	898	750	408	513
% sold externally	0%	0%	0%	0%	0%

MGOK's blast-furnace concentrate is a mixture of ordinary iron ore concentrate and sintering ore with an average iron content of approximately 60%. Due to its low moisture content, the blast-furnace concentrate does not freeze and is used by steel mills for continuous sinter production during the winter.

Historically, all of the blast-furnace concentrate produced by MGOK has been sold to Ural Steel for use in its sintering plant.

High-Grade Concentrate

The following table details MGOK's high-grade concentrate production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
High-grade concentrate	527	1,544	2,039	578	676
% sold externally	0%	0%	0%	0%	0%

MGOK's high-grade concentrate is produced on flotation facilities which commenced operation in 2007. All high-grade concentrate is used for fluxed pellets production.

Dried Concentrate

The following table details MGOK's dried concentrate production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Dried concentrate	1,426	1,647	1,180	723	709
% sold externally	100%	100%	100%	100%	100%

MGOK produces dried concentrate with an average iron content of approximately 66%. Due to its low moisture content, the dried concentrate does not freeze during the winter and can be used for continuous sinter production during the winter.

All of the dried concentrate produced by MGOK is sold to third-party steel mills.

Pelletisation

Facilities and Process

MGOK's pellet plant produces fluxed and non-fluxed pellets. In 2010, MGOK commenced construction on what is expected to be the largest pelletisation plant in Russia with capacity of 5.0 million tonnes per annum. See "—Mining Division—Modernisation and Investment Programme".

Products

Non-fluxed Pellets

The following table details MGOK's non-fluxed pellet production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Non-fluxed pellets	8,013	7,073	7,855	1,814	1,860
% sold externally	92%	79%	90%	83%	100%

MGOK produces non-fluxed pellets that have an average iron content of 62%. The iron ore pellets are used in blast-furnaces for hot metal production.

Historically, most of the Group's non-fluxed pellet production has been sold to external domestic and international customers, with the rest sold to Ural Steel for its hot metal production.

Fluxed Pellets

The following table details MGOK's fluxed pellet production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Fluxed pellets	512	1,394	1,847	525	618
% sold externally	100%	100%	100%	100%	100%

MGOK produces fluxed iron ore pellets with an average iron content of approximately 66% with low levels of sulphur and phosphorus.

Historically, all of the Group's fluxed pellet production has been sold to international customers.

Sales

The table below shows the Mining Division's sales (by volume) for each main product for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(% of Mining Division sales)				
Concentrate	47.9	39.9	41.9	40.9	43.8
Iron ore pellets	37.9	45.4	45.3	46.7	44.2
HBI	6.1	7.6	6.8	7.4	7.2
Others	8.1	7.1	6.0	4.9	4.8
Total	100.0	100.0	100.0	100.0	100.0

The table below shows the Mining Division's sales (by revenue, FCA basis) for each main product for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(% of Mining Division sales)				
Concentrate	34.9	27.2	31.5	29.6	33.9
Iron ore pellets	37.9	40.8	45.0	42.1	42.5
HBI	23.2	28.5	20.9	26.0	21.4
Others	4.0	3.5	2.7	2.2	2.2
Total	100.0	100.0	100.0	100.0	100.0

The following table summarises the Mining Division's intragroup, domestic and export sales for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Intragroup					Domestic*					Export					Total				
	Year ended 31 December			Three months ended 31 March		Year ended 31 December			Three months ended 31 March		Year ended 31 December			Three months ended 31 March		Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011
	(million tonnes)																			
Concentrate	5.2	5.1	5.1	1.3	1.4	4.7	2.6	4.0	1.1	0.7	6.6	3.8	4.6	0.7	1.7	16.5	11.5	13.8	3.2	3.9
Iron ore pellets	1.6	1.9	1.7	0.5	0.4	4.6	4.6	5.7	1.5	0.9	6.8	6.6	7.5	1.6	2.6	13.0	13.1	14.9	3.6	3.9
HBI	0.0	0.3	0.2	0.1	0.1	0.1	0.2	0.1	0.0	0.0	2.0	1.7	1.9	0.5	0.5	2.0	2.2	2.2	0.6	0.6
Others	0.3	0.4	0.5	0.0	0.0	1.5	1.6	1.1	0.3	0.3	0.5	0.1	0.3	0.1	0.1	2.3	2.1	2.0	0.4	0.4
Total	7.2	7.7	7.5	1.9	1.8	10.8	9.0	11.0	2.9	2.0	15.8	12.2	14.4	2.9	4.9	33.8	28.9	32.8	7.7	8.8

* *excluding intragroup deliveries*

Intragroup Sales (excluding sales to Trading Division)

In 2010, the Mining Division made approximately 23% of its total sales (by volume) to the Steel Division, compared to 27% in 2009 and 21% in 2008. In the three months ended 31 March 2011, the Mining Division made approximately 20% of its total sales to the Steel Division.

In 2010, LGOK supplied 100% of OEMK's iron ore requirements and approximately 50% of Ural Steel's iron ore requirements, each including concentrate and iron ore pellets. In 2010, MGOK supplied approximately 43% of Ural Steel's iron ore requirements, including concentrate, iron ore pellets and sintering ore. All intragroup sales are conducted through direct sales and on market terms.

Domestic Sales

In 2010, the Mining Division made approximately 34% of its total sales to external domestic customers, compared to 31% in 2009 and 32% in 2008. In the three months ended 31 March 2011, the Mining Division sold approximately 23% of its total sales to domestic external customers. The decrease over the period under review is due primarily to a shift in focus from the domestic market to external markets, in particular Europe and MENA. The Group's largest domestic customers are Evraz, NLMK, KOKS Group and Mechel. The Group also supplies iron ore and HBI products to MMK, Severstal, Kosogorsky Iron Works and LMZ Svobodny Sokol.

In 2010, LGOK shipped about 3.5 million tonnes of high-grade iron ore concentrate and HBI to OEMK representing approximately 20% of its total shipments. In 2010, LGOK also shipped about 2.1 million tonnes of concentrate, pellets and HBI fines to Ural Steel, representing approximately 12% of its total shipments. In 2010, MGOK shipped about 1.8 million tonnes of sintering ore, blast-furnace concentrate and pellets to Ural Steel, representing 12% share of its shipments.

In 2010, LGOK sold approximately 24% of its production on the domestic market excluding intragroup sales. The remaining 44% is exported to foreign steel producers. In 2010, MGOK sold approximately 44% of its production on the domestic market, excluding intragroup sales, and the remaining 44% was exported.

The Mining Division's domestic sales are made through either direct contracts or via third party agents. In 2010, the prices charged to most domestic customers were primarily set on a monthly basis (due to high market volatility in the aftermath of the financial crisis).

In February 2011, LGOK and MGOK entered into a long-term contract for the supply of non-fluxed pellets to NLMK. In 2011-2014, the total quantity of pellets supplied will amount to 21.7 million tonnes. The price is to be determined on a monthly basis, in accordance with a formula based on fluctuations in the price of ore fines with a basic iron content of 62% (on a CFR China delivery basis).

Export Sales

In 2010, the Mining Division made approximately 44% of its total sales (by volume) to foreign customers, compared to 42% in 2009 and 47% in 2008. In the three months ended 31 March 2011, the Mining Division sold approximately 56% of its total sales to foreign customers. In 2010, Mining Division sales to Asia and the CIS accounted for 28.5% and 8.5%, respectively, compared to 14% and 19% in 2008. The Group's main export customers are Asian (including China, South Korea, Japan and India) and European (including Slovakia, Ukraine, Czech Republic, the UK, Poland, Hungary, the Netherlands and other) steel producers. The Mining Division's two largest export customers in 2010 were ArcelorMittal, with 17% of export sales, and US Steel Kosice, with 19%. Other major export customers include MMK Ilycha, Tata Steel, Xilin Group, and Baosteel.

Metalloinvest Trading AG acts as the Mining Division's primary trading agent for exported shipments of its iron ore and HBI products.

The Mining Division plays a leading role in the CIS iron ore export market due to its scale, geographic proximity, technological conformity and historical relations with its key customers. Iron ore materials (mainly concentrate and pellets) are primarily exported to Ukraine and Eastern Europe, largely because, historically, the majority of Eastern European steel mills were built and designed to use iron ore materials from former Soviet Union iron ore deposits. Given growing demand and favourable pricing conditions, the Mining Division is also increasing sales of iron ore to China, the world's leading iron ore market.

In 2010, the Group delivered iron ore concentrate, pellets and HBI to China, Slovakia, UK, Poland, Hungry, the Czech Republic, Turkey, Holland, Italy, Germany, Spain, Korea, France, Romania, Saudi Arabia, Iceland, Egypt, India, Sweden, Mexico, Belgium, Norway, Latvia, Brazil, Japan, Kazakhstan and Ukraine. LGOK and MGOK deliver 48% and 67% respectively of their export sales via border railway stations to Eastern Europe and Ukraine. LGOK and MGOK deliver 52% and 33% respectively of their export sales via sea ports on the Caspian Sea, Pacific Ocean, Black Sea, Baltic Sea and Danube River.

The Mining Division uses Yuzhny sea port on the Black Sea, for the majority of its deliveries to China by supersize shipping vessels. The Mining Division also uses Novorossiysk sea port and Odessa sea port for deliveries to China when fluctuations in ocean freight rates make doing so economical. Almost all shipments to China are made on a CIF/CFR basis. The Mining Division also uses several ports located on the Baltic sea, including Riga and Ventspils.

Since 2008, the Group has identified new markets and has begin supplying iron ore to China, Turkey, Western Europe, India, Bahrain, and Japan. In China, the main consumers of iron ore produced by LGOK and MGOK are Baosteel Group, Shagang Group, Hebei Jingye I&S, Tianjin Pipe, Liuzhou I&S, Yanshan I&S, Xilin Group, Jianlong I&S, and Anyang I&S. In Turkey, major consumers are Erdemir and Kardemir. In the UK and Holland, major consumers are plants within the Tata Steel Group. In Bahrain, the consumer is a plant owned by Gulf Industrial Investment Co. In France, Germany, Belgium, and Spain, major consumers are the plants of ArcelorMittal Group. In India, major consumers are Varrsana Ispat, Mono Steels and National, and in Japan, Kobe Steel.

In addition, the Group began using a new route for transporting iron ore to China by railroad through the Far East of Russia. In March 2009, the Mining Division began to supply iron ore to China through the Zabaikalsk border checkpoint. The major consumers of the supplied products are Xilin Group, Jinanlong I&S, Anyang I&S and Shenyang I&S, located in the provinces of Heilongjiang and Hunan. In 2010, the volume of products supplied to China through the Zabaikalsk border checkpoint amounted to 1.2 million tonnes (while in 2009 it totalled 1.0 million tonnes). During the first quarter of 2011, about 0.7 million tonnes of products were shipped through this checkpoint. In accordance with Resolutions of the Federal Tariff Service, in 2010-2011, a reducing coefficient of 0.76 is to be applied to the infrastructural component of the railway tariffs set in respect of transporting iron ore from the LGOK and MGOK railway stations.

Export iron ore (concentrate and pellets) sales are based on direct contracts with end users. HBI is sold both to end users and trading companies.

The following table summarises the Group's Mining Division export sales (by volume and by geographic area for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011:

	Year ended 31 December						Three months ended 31 March			
Region	**2008**		**2009**		**2010**		**2010**		**2011**	
	(million tonnes)	*(% of total sales)*	*(million tonnes)*	*(% of total sales)*	*(million tonnes)*	*(% of total sales)*	*(million tonnes)*	*(% of total sales)*	*(million tonnes)*	*(% of total sales)*
Eastern Europe	9.3	58.9	4.8	39.6	5.4	37.8	1.2	41.4	1.4	28.8
CIS	3.0	18.8	1.0	8.2	1.2	8.5	0.5	19.0	0.2	3.3
China	2.3	14.5	3.9	32.3	4.1	28.5	0.1	4.7	2.0	41.3
Western Europe	0.8	4.8	0.9	7.1	2.6	18.3	0.8	28.9	0.7	14.2
Middle East	0.2	1.5	0.8	6.9	0.8	5.7	0.1	4.5	0.6	11.3
Far East (excl. China)	0.2	1.5	0.7	6.0	0.2	1.3	0.0	1.4	0.1	1.1
Total	**15.8**	**100.0**	**12.2**	**100.0**	**14.4**	**100.0**	**2.9**	**100.0**	**4.9**	**100.0**

Raw Materials, Energy and Other Consumables

The principal raw materials used by the Group's mining and processing plants are electric power, natural gas, diesel fuel, explosives, bore bits, buckets (including bucket teeth), bentonite, tires for large dump trucks, grinding balls and rolling cutter bits for drilling wells.

Electric Power

Since 1 January 2011, following the liberalisation of the Russian wholesale electricity market, the Group has purchased all its electricity (exclusive of transmission) in the wholesale electricity and capacity market ("**WEM**") at non-regulated prices.

From 2008 through 2010, LGOK consumed 3.2 billion kWh on average annually. Approximately one-quarter of the electricity was consumed at the beneficiation plant and about one-fifth was consumed at the pelletisation plant. LGOK is a direct WEM participant. LGOK has entered into two agreements for electricity transmission services. Seventy-five percent of the electricity it consumes is transmitted by OJSC "FSK UES", and the remaining 25% by OJSC "MRSC Belgorodenergo". The tariffs for electricity transmission services are regulated by the government; the tariffs for OJSC "FSK UES"'s services are approved by the Federal Tariff Service, while those for services rendered by OJSC "MRSC Belgorodenergo" are approved by the Belgorodskaya Region Committee for Tariffs and Prices.

From 2008 through 2010, MGOK consumed more than 2 billion kWh on average annually. Approximately half of the electricity was consumed at the beneficiation plant and about one-seventh was consumed at the pelletisation plant. MGOK is located in the Kurskaya region, near the Kurchatovskaya nuclear power plant, from which it receives sufficient electric power. MGOK participates in the WEM through its subsidiary energy supply company OJSC "KMA Energosbyt". MGOK has entered into an agreement for electricity transmission services with OJSC "MRSK Kurskenergo". The tariffs for electricity transmission services are regulated by the Kurskaya Region Committee for Tariffs and Prices.

Natural Gas

LGOK consumes approximately 923 million m3 of natural gas annually. Three-quarters of the gas consumed is used for HBI production; one-sixth is used at the pellet plant. LGOK procures its natural gas from Belregiongas LLC, a subsidiary of Gazprom, through the Ostrogozhsk-Gubkin gas-main pipeline. The gas is supplied to the gas distribution station of LGOK and then distributed to its iron ore pelletisation and HBI plants. To accommodate additional demand for natural gas from the planned HBI module, LGOK is constructing a new 137 km gas-main pipeline from Ostrogozhsk to LGOK. The first stage of the pipeline (16 km) was put into operation in 2007. After beginning in 2008, construction activities on the second stage (32 km) of the pipeline were completed in the third quarter of 2010. Construction on the third stage of the pipeline project, an additional 89 km, is expected to commence once construction begins on the third HBI unit.

Belregiongas LLC supplies LGOK with natural gas at regulated prices. On 1 July 2007 and 1 December 2007, LGOK and Belregiongas LLC entered into long-term gas supply agreements with a total volume of the gas supply under the agreements equal to approximately 1 billion m3. The prices are approved each year by the Federal Tariff Commission. To date, LGOK has fully covered its needs and has not purchased additional natural gas at market prices.

MGOK consumes approximately 170 million m3 of natural gas annually, which is significantly less natural gas than LGOK. Over half of the gas consumed is used at the pelletisation plant. MGOK sources 100% of its natural gas requirements from LLC Kurskregiongas and the natural gas is transported by LLC Kurskregiongas. In 2007, MGOK and LLC Kurskregiongas entered into gas supply and gas transportation agreements. The prices for a portion of MGOK's natural gas supply are approved each year by the federal tariff commission. Given the limited volume provided at these regulated rates, MGOK purchases additional natural gas under a separate agreement at market prices.

Diesel Fuel

Diesel fuel is supplied to LGOK by LLC "Neftemetsnab", LLC "Uralneftecom", LLC "Kurskoblnefteproduct", OJSC "Gazpromneft" and shipped by major refineries of OJSC NGK "Slavneft", OJSC "Ufaneftekhim", OJSC "Saratov Refinery", CJSC "RNPK", OJSC "MNPZ", OJSC "YaNOS" and others. LGOK consumed 22,300 tonnes of diesel fuel in 2010. Diesel fuel is supplied to MGOK by the company that is awarded the tender for diesel fuel based on the lowest bid, favourable supply conditions and terms of payment. MGOK's consumed approximately 24,000 tonnes of diesel fuel in 2010.

Other Consumables

The Group employs grinding balls for the primary purpose of crushing at its LGOK and MGOK plants. Balls of 40 mm, 80 mm and 120 mm are predominantly used in this process, which helps grind extracted material to specified dimensions. The Group principally sources its grinding balls from Evraz.

In addition, the Group uses drill bits for exploration, blasting and water draining. Blastholes are drilled using 250 to 270 mm drills at LGOK, and 250 mm drills are usually employed at MGOK. The Group sources its drill bits from a variety of suppliers.

Mining Division Modernisation and Investment Programme

The Group's modernisation and investment programme in the Mining Division is focused on enhancing of current assets performance in respect of production volumes, cost reduction technologies implementation, additional value creation and products quality improvement. The Mining Segment (as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Reporting") has spent RUB 4.32 billion for capital expenditures, excluding capital expenditures made through leasing company MIL LLC, in 2010.

Capital expenditures of the Mining Segment for 2011 are expected to be approximately RUB 7.90 billion, including investments through MIL LLC. Capital expenditure plans are subject to change depending, among other things, on the development of market conditions and the cost and availability of funds.

In order to continue concentrate handling, particularly in the winter, the Group will increase dried concentrate production up to 1.4 million tones. Development of the project has commenced and expected to be completed by the end of 2011. Management expects the new dryer to cost approximately RUB 1.05 billion.

MGOK has started construction of a third iron ore pelletising machine scheduled for completion in 2013, and with a designed capacity of approximately 5 million tonnes of iron ore pellets per year. Management expects the new iron ore pelletising machine will cost approximately RUB 13.23 billion.

Management is aiming for an increase in HBI capacity from current level of 2.4 million tonnes per annum to 4.2 million tonnes per annum. The planned capacity ramp-up of 1.8 million tonnes per annum is expected to be achieved via construction of new HBI #3 plant and currently pending final approval by the board of directors.

STEEL DIVISION

Overview

The Steel Division comprises OEMK, Ural Steel and Ural Scrap Company and is a leading regional and domestic producer of niche steel products, accounting for approximately 9% of crude steel and steel products produced in Russia in 2010. OEMK and Ural Steel together produce over 2,000 grades of steel, and in 2010 produced approximately 6.1 million tonnes of crude steel and 5.4 million tonnes of value-added steel products including pipe billets, square billets and a variety of value-added products, such as hot-rolled steel sheets, heavy plates, strips for large diameter pipes, bridge construction steel, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. In the first three months of 2011, the Group produced approximately 1.5 million tonnes of crude steel and 1.3 million tonnes of value-added steel products. The Group is the fifth largest steel producer in Russia by volume, according to Chermet.

In 2010, OEMK was Russia's seventh largest steel production facility in terms of steel and finished product output, according to Chermet, and is a leading producer of pipe billets, roller-bearing steel, high quality bars for the automotive industry and steel for the hardware industry. Management believes OEMK, which started production in 1982, is one of the most modern steel mills in Russia, employing MIDREX DRI technology. It is located in close proximity to LGOK, which supplies OEMK with high-grade iron ore concentrate through a 26 kilometre slurry pipeline. In 2010, OEMK produced 3.3 million tonnes of high-quality crude steel.

In 2010, Ural Steel was Russia's eighth largest steel production facility in terms of steel and finished product output, according to Chermet, and is a leading producer of strips for large-diameter pipes, pipe billets, bridge construction steel and heavy plates. Ural Steel also produces square billets, heavy sections, extruded profiles, pig iron, coke and coke by-products. In 2010, Ural Steel produced 2.8 million tonnes of crude steel.

In 2010, Ural Scrap Company had a 10% market share of the delivery of ferrous scrap in Russia by volume, according to MetalCourier. In 2010, Ural Scrap Company's volume of processing and deliveries of ferrous scrap amounted to 2.1 million tonnes.

The table below shows the Steel Division's main product categories and its output for principal products for the years ended 31 December 2008, 2009 and 2011 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three months ended 31 March	
Production	**2008**	**2009**	**2010**	**2010**	**2011**
	(thousand tonnes)				
Pellets	3,473	3,409	3,486	900	963
DRI	2,403	2,438	2,432	612	701
Sinter	3,106	3,093	2,909	684	732
Coke	1,864	1,669	1,665	459	379
Hot Metal	2,750	2,785	2,618	691	618
Crude Steel	6,364	6,493	6,089	1,608	1,494
Heavy Plate Rolling Mill 2800 Products	635	649	725	190	193
Heavy Section Rolling Mill 950/800 Products	1,833	1,931	1,504	427	377
Heavy Plate Rolling Mill 800 Products	192	68	100	18	28
Heavy Section Rolling Mill 700 Products	1,813	2,035	1,964	509	474
Medium and Small Section Rolling Mill 350 Products	628	556	697	157	194

OEMK

OEMK is the seventh largest Russian steel production facility in terms of steel and finished products output, according to Chermet, and is located in Stary Oskol in the Belgorod region (approximately 600 km southwest of Moscow). In 2010, OEMK's share of total Russian crude steel output was 5% and its share of total Russian rolled products output was 5%, according to Chermet. As compared to other Russian steel producers, OEMK employs advanced technology, including DRI and electric-arc smelting technology, allowing it to produce metals with special properties, as well as allowing it to produce steel products without coal and therefore, fewer impurities. Accordingly, OEMK sells products for engineering, automotive, pipe, hard component and bearing industries in the domestic market and exports its high quality pipe and cast billets and long rolled products (such as wire coil and bar) to foreign consumers.

History

OEMK was established in 1976 for the purposes of developing an electric-arc furnace steel operation that utilised the advanced MIDREX direct reduction iron process. In 1982, the first oxidised pellets were produced by OEMK's iron ore pelletising plant and OEMK's first DRI plant began operations in 1983. OEMK began commercial melting of steel in an EAF in 1984 and Rolling Mill 700 began producing heavy sections in 1986. Rolling Mill 350 began producing small and medium sections in 2002 and a new continuous casting machine began commercial operations in 2005. The RH-vacuum degasser was put into operation in 2008 and Ladle Furnace #3 was brought online in 2009. A new finishing line with a capacity of 300 thousand tonnes per annum of Rolling Mill 350 production was constructed in 2010.

The Group acquired OEMK in 1995. Please see "—Group History and Structure"

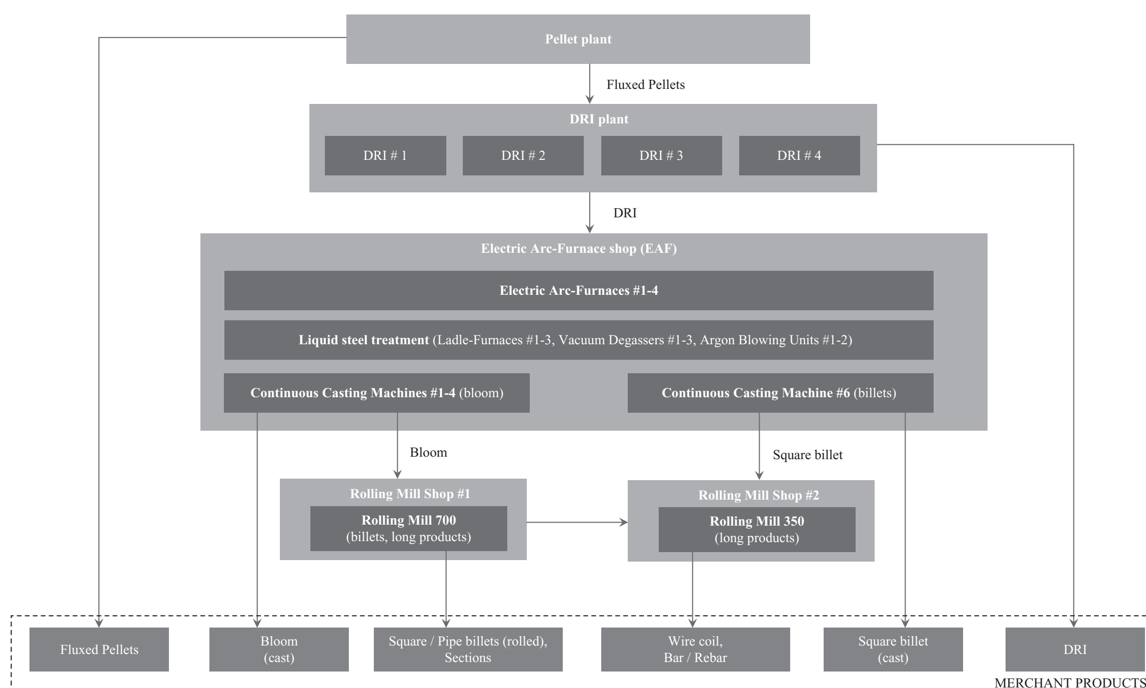
Overview of Steel Production Facilities, Process and Products

The table below shows OEMK's main product categories and its output for each product for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

Products	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(thousand tonnes)				
Pellets	3,473	3,409	3,486	900	963
DRI	2,403	2,438	2,432	612	701
Crude Steel (Billets)	3,018	3,250	3,270	829	803
Heavy Section Rolling Mill 700 products	1,813	2,035	1,964	509	474
Medium and Small Section Rolling Mill 350 products	628	556	697	157	194

OEMK's operations encompass steel production facilities, including a pellet plant, a direct reduction plant, an electric arc furnace shop, heavy section rolling mills and medium and small section rolling mills. OEMK's steel products have high steel purity in terms of residual elements content and detrimental impurities due to the use of DRI in the steelmaking process.

The following chart illustrates the principal steps in OEMK's steel production processes, which are explained in further detail below.



The following table shows the designed and installed capacities, output and the utilisation rate of each of OEMK's principal production units as at 31 December 2010. As a result of a number of capital improvements, OEMK's production units have an installed production capacity that allows them to operate significantly above designed capacity:

Production unit	Designed* Capacity	Installed** Capacity	2010 Output	Utilisation rate based on Designed Capacity	Utilisation rate based on Installed Capacity
	(thousand tonnes)			(%)	
Pellet Plant	2,433	3,486	3,486	143	100
DRI Plant	1,700	2,432	2,432	143	100
EAF Shop	1,450	3,270	3,270	226	100
Heavy Section Rolling Mill 700	2,000	2,000	1,964	98	98
Small & Medium Section Rolling Mill 350	1,000	1,000	697	70	70

* Initial Capacity
** Current Capacity

Pellet Plant

Facilities and Process

OEMK's pellet plant, equipped with a pelletising machine with an installed capacity of 3.5 million tonnes, turns iron ore concentrate supplied by LGOK via its slurry pipeline into high quality fluxed and oxidised pellets suitable for processing in the DRI plant.

Products

Pellets

The following table details OEMK's pellet production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
	(thousand tonnes)			(thousand tonnes)	
Pellets	3,473	3,409	3,486	900	963
% sold externally	1%	0%	0%	0%	0%

OEMK produces fluxed and oxidised pellets, which are a high-quality metallurgical raw material mainly used by DRI plants.

Historically, all or virtually all of the pellets produced by OEMK have been retained by the Group for processing in OEMK's DRI plant.

Direct Reduction Plant

Facilities and Process

Direct reduction is a process for making high-quality metallurgical raw material at lower temperatures than those used in a conventional blast furnace. The production process uses less energy, and the resulting product is characterized by a high iron content. Unpassivated DRI is highly porous, making it both flammable and subject to oxidation, which limits its transportability. However, OEMK produces passivated DRI using MIDREX technology, which limits the amount of secondary oxidation of the iron in case of humidification and renders the material inflammable, making it suitable for bulk transportation. The plant has four shaft furnaces with an installed capacity of 2.4 million tonnes per year.

Products

DRI

The following table details OEMK's DRI production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
DRI	2,403	2,438	2,432	612	701
% sold externally	10%	4%	4%	4%	6%

OEMK produces passivated DRI products, which are mainly used by EAF shop for steelmaking.

Historically, nearly all of OEMK's DRI products have been retained by the Group for processing in OEMK's EAF shop, with the balance sold to external customers.

Electric Arc Furnace Shop

Facilities and Process

OEMK processes approximately 95% of its DRI in its EAF shop. OEMK's EAF shop is equipped with four EAFs with a volume of 150 tonnes, two argon blowing units, three vacuum degassers, three ladle furnaces and five continuous casting machines.

The EAF shop uses both DRI and scrap as feedstock. Metallurgical lime and fluorspar are used as slag-forming constituents. During the steelmaking process, liquid metal and slag are combined with gaseous oxygen. Ferroalloys are added to the steel for deoxidation and alloying. Steel from the EAF shop is then fed to the continuous casting machine ("**CCM**"). Continuous casting is the most effective casting process with the lowest metal consumption per tonne of billet.

Products

Crude Steel

The following table details OEMK's crude steel (billets) production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Crude Steel	3,018	3,250	3,270	829	803
% sold externally	23%	29%	29%	28%	26%

OEMK produces crude steel at the EAF shop and then casts it into billets at five continuous casting machines. Outstanding impact plasticity at low temperatures makes it possible for OEMK steel to be used under severe winter weather conditions.

Historically, approximately two-thirds of the crude steel billets produced by OEMK is retained by the Group for processing in the section rolling mills, with the balance being sold to OEMK's external customers.

Section Rolling Mills

Facilities and Process

The hot rolling process consists of passing heated steel billets between two rollers. The gap between the rollers is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness and at the same time lengthened. Before hot rolling, the billets are heated in reheating furnaces to 1,250°C, which makes it easier to roll the steel and removes the rough flaky surface or scales. Billets are rolled first on the roughing stands and then on the finishing stands. Part of the rolled products goes through the heat treatment area. The processed steel is then cooled.

OEMK is equipped with a heavy section Rolling Mill 700 which has a capacity of 2.0 million tonnes per year. It also has three continuous re-heating furnaces with walking beams, one homogenising furnace, a heat treatment and cooling area and a finishing line. The applied system of automatic control in the rolling mill is controlled by a computer.

OEMK also has a small to medium size profiles Rolling Mill 350 with a capacity of 1.0 million tonnes per year, which includes two reheating furnaces with walking beams, heat treatment furnaces with a protective atmosphere and a finishing line.

Products

Heavy Section Rolling Mill 700 Products

The following table details OEMK's heavy section rolling mill production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Heavy section rolling mill 700 products	1,813	2,035	1,964	509	474
% sold externally	84%	82%	75%	76%	75%

OEMK's Rolling Mill 700 produces heavy sections, square billets and pipe billets. Heavy sections are used in automotive and constructive industries. Square billets are further processed in rolling mills, and pipe billets are used in the production of high-quality pipes for the oil and gas industry and in seamless pipes for various applications in the construction industry.

Historically, approximately three-fourths of OEMK's rolling mill 700 steel products were sold to external customers in the automotive and construction industries, with the balance (the majority of square billets produced) are retained by the Group for further processing in the rolling mill 350.

Medium and Small Section Rolling Mill 350 Products

The following table details OEMK's heavy section rolling mill production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Medium and small section rolling mill 350 products	628	556	697	157	194
% sold externally	100%	99%	99%	100%	99%

OEMK's Rolling Mill 350 produces medium bars, small bars and wire coils for the engineering, automotive hardware and ball bearing industries.

Historically, all or virtually all of OEMK's rolling mill 350 products were sold to end customers in the engineering, automotive and ball bearing industries.

Ural Steel

Ural Steel is an integrated iron and steel plant located in the city of Novotroitsk, Orenburg region (1,850 km south-east of Moscow). Ural Steel is the eighth largest Russian steel production facility in terms of steel and finished products output, and the leading producer of heavy plate, strips and pipe billet in Russia, according to Chermet. In 2010, Ural Steel produced 2.8 million tonnes, or 4% of the total Russian crude steel output, according to Chermet.

History

Orsko-Khalilovsky Iron-and-Steel Works, Ural Steel's predecessor, began production in 1955, when Blast Furnace #1 produced the first hot metal. In 1958, the first steel was produced at Open-Hearth Furnace #1. In

1981, the first furnace was commissioned at the EAF Shop, and the first electrically melted steel was produced by Orsko-Khalilovsky Iron-and-Steel Works. In 1983, the first continuous casting machine was put into operation at the EAF shop. In 1992, Orsko-Khalilovsky Iron-and-Steel Works was converted into an open joint stock company called OJSC NOSTA. In September 2002, Mr Usmanov acquired a 50% interest in OJSC NOSTA. In 2003, OJSC NOSTA was reorganised into Ural Steel and Mr Usmanov acquired the remaining 50% of Ural Steel in 2004. In 2004, a CCM #2 began operation at the EAF shop.

In 2006, the management of Ural Steel was transferred to Metalloinvest Managing Company LLC, and Ural Steel was formally consolidated into the Group. See "—Group History and Structure".

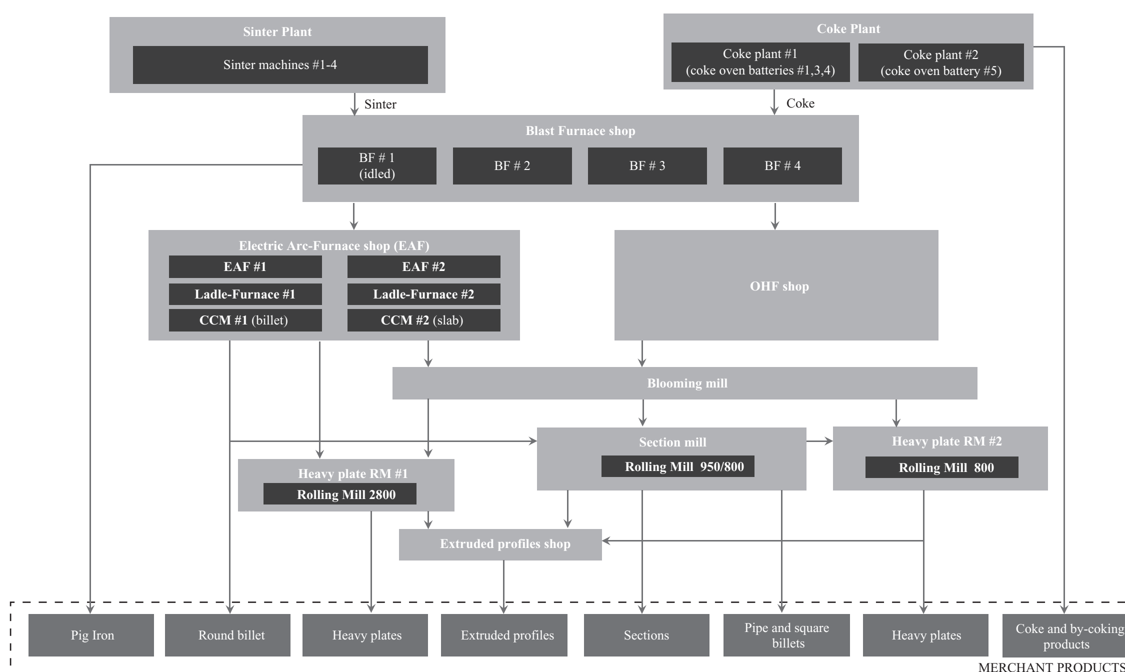
Overview of Steel Production Facilities, Process and Products

The table below shows Ural Steel's main product categories and its output for each product for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

Products	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
			(thousand tonnes)		
Sinter	3,106	3,093	2,909	684	732
Coke	1,864	1,669	1,665	459	379
Hot metal	2,750	2,785	2,618	691	618
Crude steel	3,346	3,243	2,819	779	691
Heavy Plate Rolling Mill 2800 products	635	649	725	190	193
Heavy Section Rolling Mill 950/800 products	1,833	1,931	1,504	427	377
Heavy Plate Rolling Mill 800 products	192	68	100	18	28

Ural Steel's operations include steel production facilities, including a sinter plant, coke plant, blast-furnace shop, an electric arc furnace shop, OHF shop, Blooming Mill and heavy section rolling mills.

The following chart illustrates the principal steps in the production process of Ural Steel's main steel products, which are explained in further detail below.



The following table shows the capacity and the utilisation rate of each of Ural Steel's principal production units as at 31 December 2010:

Production unit	Designed* Capacity	Installed** Capacity	Output	Utilisation rate based on Designed Capacity	Utilisation rate based on Installed Capacity
	(thousand tonnes)			(%)	
Sinter plant	3,200	3,200	2,909	91	91
Coke plant	2,658	1,938	1,665	63	86
Blast-furnace shop	3,771	3,771	2,618	69	69
EAF shop	2,000	2,000	1,574	79	79
OHF shop	3,120	3,120	1,245	40	40
Blooming Mill	3,985	3,985	1,390	35	35
Heavy Plate Rolling Mill 2800	1,255	1,255	725	58	58
Heavy Section Rolling Mill 950/800	1,465	1,465	1,504	103	103
Heavy Plate Rolling Mill 800	750	750	100	13	13

* Initial Capacity
** Current Capacity

Sinter Plant

Facilities and Process

To produce sinter, Ural Steel purchases sintering ore from MGOK, concentrate from LGOK and MGOK, siderite from external suppliers and uses its own production waste materials, including scale, tailings and other iron-containing products.

The main production equipment of the sinter plant includes four sintering machines with a total sintering area of 336 m2. The plant also includes sections for preparing of lime, fuel and sinter burden materials, sections for sinter cooling and a section for the dehydration of bearing slurries.

The primary sintering process involves the agglomeration of prepared raw materials, including iron ore concentrate, iron-bearing tailings and flux or lime, to produce sinter particles.

Products

Sinter

The following table details Ural Steel's sinter production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		(thousand tonnes)	
Sinter	3,106	3,093	2,909	684	732
% sold externally	0%	0%	0%	0%	0%

The sinter produced by Ural Steel is one of the basic raw materials used in the blast-furnace method of hot metal production.

Historically, all of the sinter produced by Ural Steel has been retained by the Group for steel production.

Coke Plant

Facilities and Process

Coke is obtained from coal concentrate and is one of the main raw materials used in the blast furnace process. Ural Steel's operational coke batteries have a total capacity of approximately 2.0 million tonnes per year. In 2010, Ural Steel produced approximately 1.7 million tonnes of coke. The coking distillation process is integrated

with a by-product plant, which uses coal screenings and other by-products for the production of different types of chemicals. One of Ural Steel's operational coking batteries is equipped with dry quenching units, which are used to improve coke quality and reduce pollution. After being screened, coke is transported on a conveyor to the blast furnaces, where it is both combusted as a source of heat and acts as a reducing agent to smelt the iron ore. Gas produced by the coke oven is recaptured and used to heat the coke ovens and to reduce natural gas consumption in other shops.

Products

Coke

The following table details Ural Steel's coke production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Coke	1,864	1,669	1,665	459	379
% sold externally	14%	0%	0%	0%	0%

The coke produced by Ural Steel is one of the basic raw materials used in the blast-furnace method of hot metal production. Ural Steel also produces a range of coke by-products, including coke nut, coke fines, crude benzene, tar and ammonium sulphate.

Historically, all of the coke produced by Ural Steel is retained by the Group for hot metal production, with the exception of 2008, when 14% was sold to external parties.

Blast Furnace Shop

Facilities and Process

Ural Steel has four blast furnaces with volumes of approximately 1,000 to 2,000 cubic metres each and an aggregate annual capacity of 3.8 million tonnes. Ural Steel also has four pig iron casting machines and one slag granulation unit. Excess gas generated by the blast furnace shop or other shops is captured and used to reduce natural gas consumption.

The smelting of hot metal involves feeding raw materials, principally comprising sinter, iron ore pellets, coke and natural gas, into the blast furnaces. This process produces a mixture of pig iron, carbonised ferroalloy and slag. The smelted product is released from the furnace between 15 and 20 times per day. The hot metal is poured into hot-metal ladle cars and taken to the electric arc furnace ("**EAF**") and open hearth furnace ("**OHF**") shops to be made into steel, while the slag is poured into slag ladle cars and taken to the slag plant for processing.

Products

Hot Metal

The following table details Ural Steel's hot metal production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
		(thousand tonnes)		*(thousand tonnes)*	
Hot metal	2,750	2,785	2,618	691	618
% sold externally	19%	21%	36%	24%	43%

Historically, approximately 60% to 80% of the hot metal produced by Ural Steel is retained by the Group for steelmaking in EAF and OHF shops as well as sold to external parties in the form of pig iron. The percentage sold externally in the first three months of 2011 was higher as a result of market conditions.

Steelmaking Facilities

Facilities and Process

Ural Steel produces crude steel at its furnace shops and then casts it into billets at two CCMs and into ingots, which are further processed into billets at the Blooming Mill

Electric Arc Furnace Shops

Ural Steel has two EAFs, each with a volume of 120 tonnes and an aggregate annual capacity of 2.0 million tonnes, two ladle-furnaces and two CCMs.

The EAF shop generally uses scrap, hot metal and ferroalloys as feedstock. Metallurgical lime and fluorspar are used as slag-forming constituents. During the steelmaking process, liquid metal and slag are combined with gaseous oxygen. Ferroalloys are added to the steel for deoxidation and alloying. Steel from the EAF shop is then fed to the CCM or, less typically, sent for casting into ingots.

Open Hearth Furnace Shop

The OHF shop operates three single-hearth and two double-hearth furnaces with an aggregate annual capacity of 3.1 million tonnes, a mixer and separate casting areas. The open hearth process is used to produce steel by melting scrap and hot metal. Steel from the OHF is cast into ingots and is transferred for processing at the Blooming Mill.

Products

Crude Steel

The following table details Ural Steel's crude steel production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Crude steel	3,346	3,243	2,819	779	691
% sold externally	1%	1%	2%	1%	1%

Ural Steel's crude steel billets and ingots are used for further processing into steel products in rolling mills.

Historically, virtually all of Ural Steel's billets have been further processed in Ural Steel's rolling mills, with the balance consisting of a range of semi-finished steel products including pipe and square billets, which Ural Steel sells primarily to its customers in export markets.

Rolling Mills

Facilities and Process

Ural Steel operates a Blooming Mill 1250 that is used to roll ingots and produce blooms and slabs. The blooming mill shop also contains sections for soaking pits and adjustable bays.

Heavy plate Rolling Mill #1 is equipped with a Rolling Mill 2800 for rolling heavy plates from low-alloyed and carbon steels, as well as high-strength steels for special purposes. Heavy plate Rolling Mill #2 is equipped with a Rolling Mill 800 which produces smaller heavy plates. It has also a thermal-etching section for heat treating and for etching strips in acid. The section mill shop is equipped with a heavy section Rolling Mill 950/800.

Products

Rolling Mill Products

The following table details Ural Steel's rolling mill production during the period under review:

	Year ended 31 December			Three Months ended 31 March	
	2008	2009	2010	2010	2011
		(thousand tonnes)		*(thousand tonnes)*	
Heavy plate rolling mill 2800 products	635	649	725	190	193
% sold externally	95%	99%	100%	100%	93%
Heavy section rolling mill 950/800 products	1,833	1,931	1,504	427	377
% sold externally	96%	99%	96%	98%	91%
Heavy plate rolling mill 800 products	192	68	100	18	28
% sold externally	89%	89%	86%	91%	91%

Ural Steel's rolling mills produces a range of large sections for the construction industry and a wide range of hot-rolled plates.

Historically, substantially all of Ural Steel's large sections have been sold externally, primarily to tube manufacturers and the bridge and shipbuilding industries.

Ural Scrap Company

Ural Scrap Company was founded in 2005 to purchase, process, and deliver ferrous scrap to the Group's Steel Division companies. Approximately 13% of Ural Scrap Company's product is primary scrap coming from Ural Scrap Company's collection efforts, while the rest of Ural Scrap Company's product is high-quality scrap obtained from external sources. Ural Scrap Company has scrap-processing facilities that allow it to utilise a wide range of sizes of steel scrap. These facilities include special cutting and packaging lines for processing the scrap so that it is ready for use in the smelting process. In 2010, the volume of processing and deliveries of ferrous scrap amounted to 2.1 million tonnes, virtually all of which was sold to OEMK and Ural Steel. In 2010, Ural Scrap Company had a 10% market share of the delivery of ferrous scrap in Russia by volume, according to MetalCourier.

Sales

The table below shows the Steel Division's external metal products sales (by volume) for each main product as a percentage of total Steel Division sales for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
			(% of Steel Division sales)		
DRI	3.8	1.6	1.6	1.5	2.4
Pig iron	8.2	9.0	14.4	10.4	16.3
Billet (excl. pipe billet)	42.1	57.4	38.6	44.1	33.6
Long products (incl. pipe billet)	33.0	21.0	32.6	30.4	34.6
Flat products	12.2	10.8	12.6	13.5	12.7
Other steel products	0.7	0.2	0.2	0.1	0.4
Total products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The table below shows the Steel Division's metal products sales (by revenue, FCA basis) for each main product as a percentage of total Steel Division sales for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**
	(% of Steel Division sales)				
DRI	2.4	1.3	1.3	1.4	1.7
Pig iron	5.1	5.6	9.7	6.8	10.7
Billet (excl. pipe billet)	34.3	49.2	32.0	36.3	28.6
Long products (incl. pipe billet)	41.4	26.2	39.0	35.4	41.7
Flat products	15.8	17.2	17.4	19.9	16.8
Other steel products	1.0	0.4	0.6	0.3	0.6
Total products	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The table below summarises the Steel Division's domestic and export sales for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Domestic					Export					Total				
	Year ended 31 December			Three months ended 31 March		Year ended 31 December			Three months ended 31 March		Year ended 31 December			Three months ended 31 March	
	2008	**2009**	**2010**	**2010**	**2011**	**2008**	**2009**	**2010**	**2010**	**2011**	**2008**	**2009**	**2010**	**2010**	**2011**
	(thousand tonnes)														
DRI	33	24	34	12	9	207	83	67	13	30	240	107	101	24	39
Pig iron	75	30	50	24	16	441	557	879	144	249	516	587	929	168	265
Billet*	171	251	361	78	91	2,478	3,489	2,136	633	454	2,649	3,740	2,497	711	545
Long products**	1,129	824	1,031	244	278	947	544	1,073	245	283	2,075	1,368	2,104	489	561
Flat products	682	630	737	208	185	89	73	80	9	22	771	703	817	217	207
Other products	41	15	15	2	6	3	0	0	0	0	44	15	15	2	6
Total products	**2,131**	**1,773**	**2,228**	**568**	**586**	**4,165**	**4,747**	**4,236**	**1,044**	**1,037**	**6,296**	**6,520**	**6,464**	**1,612**	**1,623**

* excl. pipe billet

** incl. pipe billet

The Steel Division's principal customers are in the pipe-manufacturing, automotive and bearing industries as well as in the industrial engineering sector. The Steel Division is also focused on production to serve the growing construction and construction materials sectors in Russia and the CIS.

The pipe manufacturing sector accounted for approximately 41% by volume of OEMK and Ural Steel's total domestic sales of steel in 2010. OEMK and Ural Steel's principal customers in the pipe manufacturing sector are Chelpipe, TMK and United Metallurgical Company (Vyksunskiy MZ). The main customers in the export markets are Vallourec & Mannesmann Tubes, Maharashtra Seamless Limited and Interpipe.

Domestic Sales

In 2010, the Steel Division made approximately 34% of its total sales (by volume) to domestic external customers, compared to 27% in 2009 and 34% in 2008. In the three months ended 31 March 2011, the Steel Division sold approximately 36% of its total sales to domestic external customers. In 2010, OEMK sold approximately 28% of its steel products to the domestic market, and Ural Steel sold approximately 41% of its steel products on the domestic market. The Group's largest external domestic customers are Chelpipe, Revyakinskiy MZ, Vyksunskiy MZ and Severstal-Metiz.

The Group generally agrees to call-off sales contracts on a calendar-year basis, subject to any amendments agreed each month with respect to pricing principles (e.g. spot price fluctuations), volume requirements and shipping arrangements.

OEMK and Ural Steel have leading positions in the niche steel products markets in Russia. They supply high-quality products for the bridge engineering, roller-bearing and hardware industries. The Group intends to

strengthen its position in these high value-added niches. See "—Steel Division Modernisation and Investment Programme". The Steel Division's plants are located close to their respective end markets and a significant percentage of the Steel Division's domestic customers are located in the same regions as the Steel Division's plants, which reduces transportation costs.

Export Sales

The following table sets out the distribution of consolidated export sales (by volume) by region (share of total sales volume, as a percentage) for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

Region	Year ended 31 December						Three months ended 31 March			
	2008		2009		2010		2010		2011	
	(thousand tonnes)	*(%)*	*(thousand tonnes)*	*(%)*	*(thousand tonnes)*	*(%)*	*(thousand tonnes)*	*(%)*	*(thousand tonnes)*	*(%)*
CIS	579	13.9	407	8.6	728	17.2	159	15.2	188	18.2
Eastern Europe	63	1.5	14	0.3	60	1.4	8	0.8	20	2.0
Western Europe	1,210	29.1	644	13.6	584	13.8	116	11.1	156	15.1
China	0	0.0	109	2.3	82	1.9	29	2.7	80	7.7
Middle East&North Africa	1,794	43.1	2,521	53.1	1,859	43.9	436	41.8	470	45.4
Far East (excl. China)	491	11.8	1,008	21.2	855	20.2	296	28.4	28	2.7
Other	28	0.7	44	0.9	68	1.6	0	0.0	93	9.0
Total	**4,165**	**100.0**	**4,747**	**100.0**	**4,236**	**100.0**	**1,044**	**100.0**	**1,037**	**100.0**

In 2010, the Steel Division made approximately 66% of its total sales (by volume) to foreign customers, compared to 73% in 2009 and 66% in 2008. In the three months ended 31 March 2011, approximately 64% of the Steel Division's total sales were made to foreign customers. Metalloinvest trading AG acts as the Steel Division's primary trading agent for exported shipments of its steel products. OEMK also uses Salzgitter Mannesmann International GmbH as a direct trader to negotiate long-term contracts (with the contract price linked to the market price subject to customer-specific adjustments) for the delivery of sections and pipe billets exported to France, Germany, Taiwan, Nigeria, Egypt, India and Pakistan.

OEMK exports DRI, semi-finished products (blooms, square billets, rolled square billets), pipe billets, high quality bars and wire coils. In 2010, OEMK's exports amounted to 72% of its total sales, compared to 78% in 2009. OEMK supplies products to more than 50 customers in over 40 countries. Export sales are denominated in euro and in US dollars. In 2010 70% of OEMK export sales were denominated in US dollars and 30% in euro. In 2010, 88% of exported products were transported via sea ports, 4% were transported via border railway station to Eastern and Western Europe and 8% were transported by trucks to Eastern and Western Europe. Semi-finished products accounted for 73% of OEMK's total export sales in 2010. The principal export markets for OEMK's semi-finished products are Europe, the Middle East and North Africa. Customers purchase semi-finished products for re-rolling into reinforcement bars.

Ural Steel exports primarily semi-finished products (billets, slabs, pig iron (from its excess hot metal production) and blooms), as well as some finished products such as plates. In 2010, Ural Steel's exports amounted to 59% of its total steel sales as compared to 67% in 2009. Billets historically account for the largest share of export sales. Ural Steel's export sales are primarily denominated in US dollars, but are also denominated in Euros for several EU customers. The principal export markets for Ural Steel's products are Europe (including Italy, the Baltic countries), the Far East (including Japan, Korea, Thailand, Taiwan, Bangladesh and Vietnam), and the Middle East. A substantial portion of the Group's sales are made through international traders. In 2010, Ural Steel exported approximately 59% of its production to approximately 35 customers in 30 countries and sells primarily on the spot markets. Substantially all of Ural Steel's export sales are shipped through sea ports (Kaliningrad, St. Petersburg, Nakhodka, Novorossiysk, Tuapse, Vladivostok and others) to its foreign customers while the remaining 0.2% is exported via a border railway to Europe (Estonia, Latvia, Slovakia and Poland).

Raw Materials, Energy and Other Consumables

The following table sets forth a breakdown of the raw materials purchased by Ural Steel and OEMK for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	(thousand tonnes, except as otherwise noted)				
OEMK					
Iron ore	3,272	3,465	3,521	929	932
Scrap	1,283	1,083	1,006	241	185
Ferroalloys	64	51	64	15	17
Electrical Power*	2,936	3,019	3,144	791	817
Natural Gas**	1,152	1,046	1,188	315	338
Ural Steel					
Iron ore	4,555	4,623	4,220	1,088	1,053
Scrap	948	895	982	215	286
Coal	2,318	2,123	2,142	597	471
Ferroalloys	75	66	63	17	16
Electrical Power*	1,087	922	1,003	202	217
Natural Gas**	1,102	1,098	1,125	364	358

* million kilowatt hours
** million cubic metres

The main raw materials that the Steel Division uses for its metallurgical processing activities are iron ore, coking coal, scrap metal and ferroalloys as well as water, gas and electricity. The Group takes advantage of vertical integration between its operating divisions in the provision of a number of these raw materials.

Iron Ore

The Mining Division has the capacity to provide 100% of the iron ore requirements of the Steel Division's steel operations, although Ural Steel sourced approximately 5% of its iron ore requirements from other suppliers in 2010 (a figure which fluctuates depending on transportation logistics and production timing, in 2009, this was 9%). The Steel Division's raw materials requirements for iron ore pellets and concentrate account for approximately 23% (by volume) of the Mining Division's total sales.

All of the Steel Division's contracts with its iron ore suppliers, including those with the Mining Division, are concluded on an arm's length basis. The Steel Division employs a number of controls to ensure proper quality control of its iron ore supplies, and in some cases, contracts provide for price adjustments depending on the quality of the concentrate.

Ferrous Scrap

The Steel Division is a significant consumer of scrap in Russia and sources 100% of its scrap from Ural Scrap Company. The Group has developed a programme with Ural Scrap Company to create a network of companies for procuring and supplying scrap. In 2010, the Steel Division processed approximately 2.1 million tonnes of scrap (1.0 million at OEMK and 1.0 million at Ural Steel), 100% of which was purchased from Ural Scrap Company on an arm's length basis.

Coking Coal

Coking coal required for coking at Ural Steel is typically purchased on the domestic market in Russia. Supplies are typically sourced from major Russian producers (Sibuglemet, Evraz, Mechel, Kemerovo-Koks and others) under annual supply contracts. Besides the volumes and delivery dates, the contracts include a quarterly adjustment of prices subject to the conditions on the domestic market of coking coal in Russia. Supplies may be delivered both in the railcars of Russian Railways and railcars of MIT LLC.

Ferroalloys

Most ferroalloys sourced by the Steel Division are purchased in Russia (ChEMK, Serovski ZF, Mechel and others), Ukraine and Kazakhstan. A limited quantity of ferroalloys is supplied from Brazil and China. Ferroalloys are supplied according to delivery schedules agreed between the Group and suppliers under quarterly contracts.

Electricity

In 2010, the Steel Division consumed approximately 5 billion kWh of electricity.

OEMK consumes approximately 3 billion kWh per year. About two-thirds of the electricity is consumed at the electric-arc furnace shop for DRI and ferrous scrap melting. Electric power supply is provided by retail suppliers through high-voltage networks owned by the Federal Grid Company of the Unified Energy System of Russia. In 2011, OEMK and JSC Belgorodskaya Sbytovaya Kompanya entered into an agreement for the supply of electricity.

For 2011, JSC Belgorodskaya Sbytovaya Kompanya offered OEMK a price which the Group believes is 20% lower than that offered to other industrial electricity consumers. Starting from 2012, OEMK plans to start operating in the WEM through OJSC "KMA Energosbyt", an energy supply company, which forms part of the Group. The Group expects this arrangement to further reduce electricity costs.

Ural Steel consumes approximately 2 billion kWh per year. Approximately 50% of the electricity is provided for by its own power plant, which use the blast-furnace and coke gas resulting from production processes as well as natural gas. About half of the electricity is consumed at the electric-arc furnace shop for scrap melting; one-seventh is consumed at the sinter plant. Management believes that this internal electricity generation provides significant cost savings. Ural Steel's remaining demand is provided by a guaranteed supply company, OJSC Orenburgenergosbyt, at a fixed price which the Group believes is 15% lower than that offered to other industrial electricity consumers in the region.

Natural Gas

OEMK consumes approximately 1.2 billion m3 per year, supplied by LLC Belregiongas at prices regulated by the Federal Tariff Service, which are approved each year. About 70% of the natural gas is consumed at the pellet and DRI facilities.

Ural Steel consumes approximately 1.1 billion m3 of natural gas per year, supplied by LLC Orenburgregiongaz at prices regulated by the Federal Tariff Service and approved each year. A significant proportion of the gas consumed at Ural Steel is used for electricity generation at the site.

At both OEMK and Ural Steel, natural gas is consumed by reheating furnaces at the rolling mill shops.

Transport of Raw Materials

The Group's main raw and semi-finished materials, iron ore, coal and scrap, are transported by railway. The basic level of tariffs is regulated and tariffs are increased on an annual basis. Historically such increases have not generally exceeded the rate of inflation.

Feedstock for OEMK and Ural Steel are delivered from Russian suppliers primarily by rail based on the delivery terms CPT. Imported feedstock and materials for OEMK and Ural Steel are supplied both by rail and by car based on delivery terms DDP.

Given its proximity to LGOK, OEMK sources 100% of its high-grade iron ore concentrate from LGOK. The iron ore concentrate is transferred from LGOK via a 26 kilometre slurry pipeline resulting in significant savings on transportation costs.

Steel Division Modernisation and Investment Programme

The focus of the modernisation programme within the Steel Division is on the continued development of OEMK's steelmaking and rolled products facilities which is expected to increase production, efficiency and product quality in the medium term. A number of projects are currently in progress for Ural Steel as well.

The Group has spent RUB 4.30 billion for the Steel Segment (as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Reporting") capital expenditures, excluding investments through MIL LLC, in 2010.

Capital expenditures of Steel Division for 2011 is expected to be approximately RUB 4.28 billion, including investments through MIL LLC. Capital expenditure plans are subject to change depending, among other things, on the development of market conditions and the cost and availability of funds.

The Group intends to continue developing the implemented investment projects on OEMK. Recent investment projects include installation of a new finishing line with a capacity of 300 thousand tonnes per annum on Rolling Mill 350 production unit in 2010, Ladle Furnace #3 in 2009, the RH-vacuum degasser in 2008 and modernisation of the reformer on DRI-1 plant. Management focuses on continuous improvement of OEMK's facilities and plans to increase crude steel capacity in medium-term.

Currently Ural Steel plant is undergoing a gradual reconstruction and replacement of obsolete facilities. A new coke-oven battery #6 with capacity of 690 thousand tonnes per annum is under construction. As a result, cost reductions can be expected due to on-site metallurgical coke production as opposed to purchasing materials from third parties. Management expects the new coke-oven battery to cost approximately RUB 3.40 billion. A vacuum degasser with capacity of 1.2 million tonnes per annum is being constructed in the EAF. This will result in an increase in the steel products range quality improvements, which will allow the Group to enhance its positions in niche markets as well as access new markets. Management expects the new vacuum degasser to cost approximately RUB 0.89 billion.

AUXILIARY BUSINESSES AND OTHER ASSETS

Auxiliary Businesses

The Group operates the following service businesses, which support its Mining and Steel Divisions.

MIT LLC

Metalloinvesttrans ("**MIT LLC**") was founded in February 2005 to operate rail transport for the Mining, Steel and Trading Divisions and to provide rail transport for companies outside of the Group. As at 31 December 2010, MIT LLC operated 8,266 units of rolling stock. Transportation volumes increased from 39,700 thousand tonnes in 2009 to approximately 43,500 thousand tonnes in 2010.

The Group established an in-house transportation subsidiary to provide: increased scope for cost control (compared to third-party providers); enhanced monitoring of the transportation services market; security of transportation supply during drastic price movements; and a platform to interact with OJSC Russian Railways and railroad authorities of other countries to resolve any issues in relation to railway transportation, as well as to interact with other operators of rolling stock whenever it is necessary to hire additional carriages.

Hamriyah Steel

The Group completed the construction of the Hamriyah Steel Plant, a new rolling mill in the UAE with target rebar production capacity of 1 million tonnes per annum. At full capacity, the plant would represent a significant share of the UAE steel products market in the medium-term, enabling the Group to have a presence in the rapidly developing markets of North Africa and the Middle East.

MIL LLC

MetallinvestLeasing ("**MIL LLC**") was founded in 2005 and leases technical equipment, custom technologies, vehicles, and railway cars to a wide spectrum of industries. Its main leasing partners include large Russian mining and metallurgical enterprises, transport companies, and financial institutions. According to Expert RA, MIL LLC was the twentieth largest leasing company in Russia in 2010. In 2006, MIL LLC's principal customers were MGOK and MIT LLC. In 2007, MIL LLC acquired the assets of OJSC Leasing Company Limos-M which provided services to LGOK and OEMK. As at 31 December 2010, the size of its leasing portfolio (lease payments due) was RUB 15.7 billion.

MIT AG

Metalloinvest Trading AG ("**MIT AG**") was founded in 2008. MIT AG and FMC act as the trading arms and agents for the Group's export shipments of iron ore and steel.

FMC

Ferrous Metals Company ("**FMC**") was founded in 2006 and acts together with MIT AG as the primary trading arm and agent for the Group's export shipments of iron ore and steel. Previously held by the Group's shareholders, FMC was consolidated into the Group for the first time in August 2008.

Sladkovsko-Zarechnoe Licence Block

Sladkovsko-Zarechnoe is a natural gas and oil deposit located in the Orenburg region of Russia, with convenient access to infrastructure and transportation. As at 31 March 2008, DeGolyer and MacNaughton reported that the Sladkovsko-Zarechnoe licence block had prospective resources (mean estimate) of 323.2 million barrels of oil equivalent, including 54.6 million barrels of crude oil, 1,125 billion cubic feet of natural gas and 68.4 million barrels of condensate.

During 2010 Sladkovsko-Zarechnoe, in accordance with the licence terms, drilled its first exploration well and shot 3D seismic imagery, covering the whole licence block. New seismic surveys confirmed the previous geological model and discovered promising new structures located within the licence territory. In December 2010 a pilot exploration well was successfully drilled, discovering oil and gas horizons. Some of them were tested and proved possible oil and gas output.

The Group is planning to start oil production from the first well in the near term which will allow it to register an oil and gas field discovery with government bodies, convert resources into reserves and make a provisional reserves estimate. After successful drilling of the first well Skadkovsko-Zarechnoe the Group is considering drilling the second exploration well, which may allow the Group to verify the geological model of the field and substantially increase more valuable categories of reserves.

Sladkovsko-Zarechnoe oil and gas field, acquired in August 2008 for consideration of RUB 2,380 million, is a prospective natural gas and oil deposit, which is located in the Orenburg region of the Russian Federation (south of the Ural mountains) with convenient access to infrastructure and transportation. As at 31 March 2008, DeGolyer and MacNaughton reported that the Sladkovsko-Zarechnoe license block had potential resources (mean estimate) in the amount of 323.2 million barrels of oil equivalent, including 54.6 million barrels of crude oil, 1,125 billion cubic feet of natural gas and 68.4 million barrels of condensate. The Group views this deposit as an opportunity to hedge the Group's exposure to increases in the cost of natural gas used in HBI/DRI production. In the alternative, the Group is also considering the sale or spin-off of the field.

"City institution for designing metallurgical plants" LLC

"City institution for designing metallurgical plants" LLC was founded in 2005 as GIPROMEZ LLC and acquired by the Group in October 2008. The Group consolidated 100% of GIPROMEZ LLC in December 2009 and renamed it "City institution for designing metallurgical plants" LLC. It is one of the leading design, engineering and consulting companies in the ferrous metal industry in Russia, whose basic activities include rendering complex engineering and consulting services in the field of metallurgical production (steelmaking, rolling etc.), design and realisation of the projects on reconstruction, technical revamping, construction of the new industrial, transport and utility projects in Russia and abroad, including business plans, basic design concepts, design documentation, detailed engineering documentation. "City institution for designing metallurgical plants" LLC provides services to the Group as well as to other steelmaking plants in Russia.

Other Assets

The Group manages an investment portfolio of other assets, including non-Russian mining operations, which it considers to be attractive financial investments with the potential to become strategic or commercial supplements to its core businesses, including an interest in Nautilus Minerals and BMC.

Nautilus Minerals

Nautilus Minerals was the first company to commercially explore the ocean floor for polymetallic seafloor massive sulphide deposits and is currently developing its first project at Solwara 1, in the territorial waters of Papua New Guinea in the western Pacific Ocean. Nautilus Minerals is listed on the TSX and AIM stock exchanges, and has among its largest shareholders two of the world's leading international resource companies Anglo American (11.1%) and Teck Resources (6.8%), as well as the Group, the largest shareholder of Nautilus Minerals, which beneficially owns 21.0% of the company's issued shares.

BMC

BMC is a 100% owned affiliate of the Group. Since June 2010, BMC has held the Udokan copper deposit licence, which was acquired by MGOK in September 2008 for RUB 15 billion. Udokan is one of the largest copper deposits in the world by the size of copper reserves, with estimated copper reserves of 20 million tonnes, which accounts for about 60% of all copper reserves of Russia.

The deposit is located in the Kalar District of the Transbaikal Territory, approximately 30 kilometres from Chara rail station on the Baikal and Amur Railway Road. An industrial complex, which is planned to be constructed in the field, is designed to process 36 million tonnes of ore per year.

A Board decision on the development of the project will be taken upon completion of the technical feasibility study expected in 2012. Any estimates regarding required capital expenditures for such development are not yet final. The Group is considering a variety of funding options including equity, debt, a combination of equity and debt, project finance and other types of financing. The Group is also considering a spin-off the asset.

Norilsk Nickel

In March 2011, the Group entered into an agreement to acquire 75,240,247 American depositary receipts ("**ADRs**") representing an interest of approximately 4.0% in OJSC "MMC Norilsk Nickel" for a total consideration of U.S.$2.2 billion. The investment is designed to provide the Group with a measure of diversification, to give the Group the option to benefit from future consolidation in the Russian metal & mining sector, and to provide a periodic dividend stream, whilst providing a liquid and monetisable investment.

Management Companies

The Group operates the following management entities, which provide management services to its operational and investment subsidiaries.

The Parent was founded in 2000 as CJSC Gazmetall ("**Gazmetall**") in the form of closed joint stock company. In 2008, the Parent was renamed CJSC "Holding Company Metalloinvest" and reorganized as an open joint stock company named JSC Holding Company Metalloinvest. The Parent is the holding company for the Group's assets. See "—Group History and Structure" and "Description of the Issuer and Guarantors—Guarantors—The Parent".

Management Company Metalloinvest LLC ("**Metalloinvest Management Company**"), founded in 2006, provides corporate and strategic management services to the Parent, including management of the Group's operational subsidiaries.

Transportation and Logistics

The products produced by the Mining and Steel Divisions are dispatched mainly by railways. Rates for railway consignments are established by Russian Railways, together with FTS, on an annual basis. In 2010, 93% of the Group's railway shipments were dispatched through MIT LLC. Use of both private and rented rolling-stock creates a discount on railway rates compared to the Group's domestic competitors. In 2010, total transportation volume of MIT LLC was 43.5 million tonnes an increase of 9.6% from 2009.

The majority of LGOK's iron ore products are transported by railway. The basic level of tariffs is regulated and are increased on an annual basis by resolution of the Russian Federal Tariff Service ("**FTS**"). Historically, such growth has not generally exceeded the rate of inflation. In addition, in 2010, approximately 3.3 million tones of LGOK's high-grade iron ore concentrate were transported via a 26 kilometre slurry pipeline to OEMK.

MGOK's iron ore products are transported by railway. All of the operations in the pit are shovel/truck fed to a comprehensive railway system that is connected with Russian Railways. The basic level of tariffs is regulated and increased on an annual basis by resolution of the FTS and historically such growth has not generally exceeded the rate of inflation. In 2010, 100% of MGOK's merchant iron ore products sold to Ural Steel were transported by MIT LLC.

OEMK benefits from the strategic geographic location of its major plants and uses a combination of rail and road for transporting its products and raw materials. OEMK relies on a slurry pipeline from LGOK.

Due to its location in the Urals, Ural Steel depends on railway transportation to distribute its products, as well as to transport raw materials to its production facilities. At present, 100% of Ural Steel's products are transported by MIT LLC by rail to its customers or to ports for onward transportation by ship.

Employees and Industrial Relations

The following table sets forth the number of the Group's employees by business division as at 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

Business division	As at 31 December			As at the three months ended 31 March	
	2008	2009	2010	2010	2011
Mining Division	**29,075**	**28,666**	**29,098**	**28,934**	**29,049**
LGOK	9,958	9,637	9,605	9,637	9,590
LGOK subsidiaries	6,198	6,133	6,180	6,164	6,117
MGOK	7,775	7,513	7,688	7,611	7,720
MGOK subsidiaries	5,144	5,383	5,625	5,522	5,622
Steel Division	**30,833**	**30,381**	**30,602**	**30,450**	**30,113**
OEMK	11,618	11,105	11,813	11,250	11,758
OEMK subsidiaries	1,814	1,617	1,546	1,583	1,538
Ural Steel	16,885	17,149	16,767	17,115	16,358
Ural Steel subsidiaries	516	510	476	502	459
Auxiliary Businesses and Other Assets	**3,237**	**2,931**	**3,225**	**2,979**	**3,198**
MIT LLC	173	157	171	155	166
MIL LLC	25	8	11	9	13
Ural Scrap Company	2,391	2,146	2,163	2,125	2116
MIT AG	9	10	23	16	23
FMC	17	17	9	11	9
"City institution for designing metallurgical plants" LLC	160	152	149	152	152
Hamriyah Steel	13	84	248	126	254
Metalloinvest Management Company	199	274	346	300	355
The Parent	21	9	8	11	7
Metalloinvest Holding (Cyprus) Limited	1	1	1	1	1
Other	228	73	96	73	102
Total	**63,145**	**61,978**	**62,925**	**62,363**	**62,360**

The human resources policy of the Group has been designed to maintain the number and quality of the Group's personnel in accordance with the Group's strategic objectives. The Group provides economic and non-economic incentives and tasks to encourage the engagement and retention of highly qualified employees. For example, to recruit and retain highly qualified personnel, the Group sponsors educational institutions (including schools), carries out target training programmes relating to key jobs, arranges for field experience and externships and awards dedicated scholarships to the best students.

The Group has a system for personnel training and development in its own corporate and external educational centres. In 2010, 34,700 Group employees participated in various career enhancement and professional development schemes.

Relations between the Group and its employees are regulated by applicable Russian federal and local labour legislation. The Group's employees are engaged under a variety of employment arrangements. Because the companies in the Group are separate legal entities, each Group company enters into collective bargaining arrangements with trade unions separately. The Company has a programme of incentives for staff including an employee benefit system. Benefits are based on various criteria, including the employee's job performance and length of employee service.

Approximately 79% of the Group's employees are members of labour unions. Management believes the Group maintains good relations with the governing bodies and labour unions. The Group is not party to any collective employment disputes and there have been no strikes or other cases of industrial action at the Group's facilities during the last three years.

Quality Control

LGOK's quality control policy is designed to achieve the following goals: compliance with customers' requirements in respect of the quality of iron ore products produced by LGOK; participation by each of LGOK's employees in quality control activities; an increase in productivity; a decline in the cost of production; and compliance with the Russian legislation. LGOK has a compliance certificate (BS EN ISO 9001:2000) issued by the British Standards Institution.

MGOK's quality control system operates in accordance with the requirements of the international standard ISO 9001:2008. In 2009, MGOK's quality control system was once again certified by a German certification body, TUV SUD Management Service GmbH. This body carried out a recertification audit, monitoring the compliance of the quality control system with the international standard ISO 9001:2008 in the area of iron ore production, as well as production and distribution of iron ore products. In 2010, MGOK's quality control system successfully passed a control audit.

OEMK and Ural Steel have introduced and are successfully using a quality control system in accordance with ISO 9001:2000. In addition, in August 2009, OEMK's quality control system passed a second audit in relation to the environmental management system under ISO 14000:2004.

Ural Steel was one of the first enterprises among those operating in the metallurgy sector to start developing a quality control system in accordance with international standards. In 1995 Ural Steel's quality control system was certified to confirm its compliance with the requirements of ISO 9002; the certificate was issued by the certification centre TÜV Rheinland/Berlin-Brandenburg. The quality control system is being used successfully, and the certificate of compliance is still in effect. In 2010, the certification centre TUV SUD Management Service GmbH issued a certificate to Ural Steel confirming that its quality control system met the requirements of ISO 9001:2008. In 2009, the quality control system became certified with respect to the requirements of STO Gazprom 9001-2006. In 2011, work began to develop a quality control system which would comply with the requirements of the technical conditions ISO/TU 16949:2009. In addition, Ural Steel has about 25 compliance certificates confirming the compliance of its products with the requirements of Russian, foreign and international standards and rules.

Health and Safety Management

In each of its business segments, the Group uses health and industrial safety management systems. These are designed to maintain and enhance efficiency and safety of workers in accordance with the law.

There are no specific legislative acts and regulations in Russia regulating the operations of the metallurgy industry and steelmaking companies. The production, marketing/sales and distribution of steel in Russia are regulated by general rules of civil legislation, specific laws relating to quality standards, industrial safety, the environment, and other rules. According to the Law on Technical Regulation, technical standards and rules relating to industrial safety and environmental protection may only be approved by federal laws, decrees of the President, and resolutions of the Russian government. See "Regulatory Matters—Regulation of the Mining and Steel Industries in the Russian Federation".

Mining Division

Both LGOK and MGOK have an industrial safety and labour hygiene programme which was developed in accordance with Russian legislation. In addition, LGOK and MGOK monitor the steadiness of slopes and terraces, as well as the burden on and deformation of rock masses behind the rock face. In order to comply with health and safety rules, LGOK and MGOK regularly carry out instrumental measurements of, and laboratory research on, factors affecting the industrial environment. As a result of such measurements and research, they can determine airborne concentrations of harmful substances in the work environment, levels of noise and vibration, intensity of electric and magnetic fields, ambient temperature, and the intensity of natural and artificial lighting. When maximum acceptable levels of, for example, dust, chemical substances or noise and vibration are exceeded, LGOK and MGOK take specific measures to improve working conditions at each place of work.

In 2010, there were six accidents at LGOK, with one fatality (in 2009, there were five accidents, with one fatality and in 2008, nine accidents, with four fatalities).

In 2010, there were four accidents at MGOK (in 2009, there were five accidents, with no fatalities and in 2008, seven accidents, with three fatalities).

In 2009-2010, the relevant governmental supervisory bodies identified no administrative violations by LGOK or MGOK regarding their obligation to ensure safe working conditions, and no statutory sanctions were imposed on LGOK or MGOK.

Steel Division

In 2007, OEMK adopted a Labour and Industrial Safety Policy, the primary aim of which was to ensure safe working and industrial conditions for OEMK's employees. In 2009-2010, OEMK received no notices regarding any material violations of labour safety rules, its internal code of conduct or any penalties imposed by any governmental bodies. In March 2009, OEMK successfully passed a recertification audit which confirmed that OEMK's operations complied with the requirements of the international standard OHSAS 18001:2007 set in respect of occupational health and safety management systems.

In 2010, there were four industrial accidents at OEMK; in 2009, there were three, and in 2008, four.

The Security Service of Ural Steel was established in 1989; currently, it has approximately 75 employees. In 2009-2010, governmental bodies imposed minor sanctions on Ural Steel's employees in connection with their failure to comply with safety rules.

In 2010, there were 12 industrial accidents at Ural Steel, with two fatalities (in 2009, there were 11 industrial accidents, and in 2008, 14 accidents, with one fatality).

ENVIRONMENTAL

Each of the business divisions of the Group monitors compliance with the existing environmental laws and rules. Various legal actions, suits, and other legal proceedings have been and/or are being initiated against each of the business divisions of the Group in connection with environmental issues, but to date have not resulted in material liability. The Group's operating subsidiaries have introduced an Environmental Management System to ensure protection of the environment and compatibility with environmental conditions in accordance with ISO 14001:2001.

LGOK

The management believes that LGOK has all licences and approvals issued by environmental bodies which are required to operate its facilities. In 2005, LGOK obtained a compliance certificate confirming its compliance with the Russian standard ISO 14001:1998 and the international standard ISO 14001:2004; another certification to confirm its compliance with the above standards was received in 2008. In 2010, authorised governmental bodies carried out an inspection at LGOK to check whether or not the entity complied with the existing regulations.

LGOK is implementing and/or planning to implement a number of projects with a view to minimising the negative impact of its operations and ensuring rational use of water resources. Currently, it is implementing a project which involves the removal and storage of a fertile topsoil layer. The projects which are planned to be implemented in 2010 include those aimed at reducing dust and carbon dioxide emissions and improving control over the emissions, projects designed to upgrade equipment used to reduce pollution of water and waste water collection and drainage systems as well as to exercise control over waste water quality, projects relating to reuse and recycling of waste, black earth soil, and reduction of pollution with oils and lubricants, and recertification of the environmental management system to confirm its compliance with GOST P ISO 14001-2007.

MGOK

The management believes that MGOK has all licences and approvals required by environmental bodies. MGOK has introduced an environmental management system in accordance with the requirements of the international standard ISO 14001:2004. The system is scheduled to be certified in November 2011. Inspections carried out by authorised governmental bodies at MGOK over the last three years confirmed that the environmental management system complies with all the existing environmental standards and laws.

MGOK is currently implementing a set of measures aimed at reducing and mitigating any harmful impact on the environment; there are also further projects that are scheduled to be implemented in 2011. The projects expected to be implemented in 2011 include measures aimed at reducing dust and carbon dioxide emissions, those designed to reduce pollution of surface-water bodies, upgrade the waste water drainage system and improve the quality of underground water, those relating to reuse and recycling of waste and reduction of pollution with petroleum products, and those relating to development of regulatory documents.

OEMK

In July 2009, OEMK successfully passed its second recertification audit which confirmed the compliance of its operations with the requirements of the international standard ISO 14001:2004 in respect of environmental management systems.

In 2010, based on the results of monitoring of a water recirculation system, OEMK improved a process involving reactant treatment of washery water. Environmental measures then introduced enabled it to reduce discharges of pollutants (fluorides) to 7.124 tonnes, which is 0.23 tonnes less than in 2009.

OEMK plans to have implemented a number of projects in order to reduce the harmful impact of the steelmaking shop's gas cleaning system. This would enable it to reduce emissions of dust, upgrade the water recirculation system in order to reduce water pollution, introduce a dedusting system at the pelletisation plant to reduce discharges in the air, and upgrade water pipes, a water treatment plant and an intercompany closed-cycle system with a view to reducing the consumption of fresh water.

Ural Steel

In 2004, Ural Steel introduced an environmental management system in accordance with the international standard ISO 14001:1996. In 2008, 2009, 2010, and 2011, Ural Steel successfully passed its second certification and an audit confirmed that it complied with the requirements of the standard ISO 14001-2004; in 2008, the scope of the certificate was extended. In 2011, a recertification audit was carried out, and it was confirmed that Ural Steel's environmental management system met the requirements of the international standard ISO 14001:2004. It has been confirmed that Certificate No. 751100163 of 27 May 2008 issued by the certification centre TÜV Rheinland InterCert is valid until 2014.

In accordance with its investment programme for 2010, Ural Steel invested in equipment used to reduce adverse impact on the environment. In addition, in 2010 Ural Steel used a portion of the proceeds of its repairs/renovation fund for the purpose of environmental protection. These measures resulted in certain improvements; in particular, consumption of fresh water from the Ural river was reduced to less than 2 per cent in recirculation cycles, and the electricity consumption per tonne of electric steel was reduced from 462 kWh to 373 kWh.

Ural Steel plans to implement additional projects aimed at reducing its impact on the environment. In particular, it plans to create a new disposal site for solid waste in order to reduce pollution of soil and underground water, to upgrade a chemical plant of the coke department in order to reduce discharges of air-borne pollutants, and to upgrade a gas-cleaning system of the sintering plant in order to reduce air pollution.

Within the framework of delivery of the project on sales of green gas emission reduction units ("**ERUs**") in accordance with Article 6, Kyoto Protocol to UN Framework Climate Change Convention, Ural Steel passed through a procedure of verification of green gas reductions. Verification reports for 2008 and 2009 were drawn up by Bureau VERITAS, according to which the total ERUs of the project were approximately 3.2 million tonnes of CO2, with approximately 1 million tonnes in ERUs for 2008-2009.

The project "Implementation of Resource-Saving Technologies at Ural Steel" was presented to the first tender organised by the Sberbank, the official operator of carbon units, and was approved by the Ministry of Economical Development of Russia.

INSURANCE

The Group's subsidiaries maintain insurance programmes commensurate with comparable industry practice, covering its property, plant, equipment and business interruption. The Group maintains insurance on the basis of reinstatement costs according to the evaluation of market values, prepared by American Appraisal Inc. The insurance contracts are generally valid for one year with annual renewals and insurance premium shall be

payable quarterly by equal sums. Upon the expiration of the current insurance programme, the Group intends to renew the programme on similar terms. The insurance programmes in respect of the property of and interruption in the operations of the Group are maintained with "A" rated reinsurance companies. The employees of the Group are insured against accidents at work.

Additionally, the Group's operating subsidiaries maintain mandatory insurance required by Russian legislation.

Research and Development

The Group's research and development activities are primarily aimed at improving quality, optimising costs, and improving the condition of the environment.

LGOK

Through its research and development work, LGOK strives to develop methods which can improve its production processes from both a technical and economic standpoint. Priority tasks in the R&D area include improvement of the quality of LGOK's products, reduction of costs, and minimising the adverse impact of its production processes on the environment. LGOK's facilities producing HBI require extensive scientific knowledge, technical skills and experience, particularly regarding organisation of production processes based on the latest scientific and technical developments, and are required to use HBI production technologies developed by MIDREX and HYL-III.

MGOK

MGOK is engaged in scientific studies through its cooperation with third party research and development institutions and organisations; this work is aimed at improving existing technological processes. Recently, MGOK entered into one such agreement providing for research and development work in relation to extraction of hematite concentrate by means of wet magnetic separation of a discarded portion of raw materials; the results of this work were used as the basis of a programme for upgrading hematite production at MGOK.

OEMK

OEMK is seeks opportunities to improve the operation of its equipment by introducing scientific and technological innovations that meet modern requirements. Every year, OEMK carries out at least 10 to 15 research and development studies with the help of experts from leading R&D institutions. OEMK's products manufactured under its R&D programmes have been awarded numerous prizes at various Russian and foreign exhibitions.

Ural Steel

To improve the quality and reduce the costs of its products, as well as to increase the assortment of their grades, in 2007—2010 Ural Steel entered into six R&D agreements with FGUP TsNIIchermet named after I. P. Bardin and FGUP VUKHIN. The results of Ural Steel's R&D work won awards at international exhibitions and fairs.

Information Technology

The Group is in the process of updating its five-year information technology ("**IT**") strategy, introduced in 2007, covering the following components: Infrastructure & Architecture, IT Security, IT Organisation & Governance, IT Services and Information Systems.

The Group has approved consistent plans for SAP-based enterprise resource planning solution implementation and improvement in an effort to improve the functionality of the Group's Mining and Steel Divisions, integrate the Group's trading houses to support cross-company business processes; improve Management reporting, consolidate Management responsibilities and improve budgeting functionality, as well as launch human resource, treasury and cash, investment and projects management programmes. The Group has begun the replacement of the existing in-house software with a corporate SAP-based solution and expects to complete the upgrade step-by-step over the next five years. Currently, SAP solutions have been implemented at three of the Group's sites, OEMK, Ural Steel, and Metalloinvest Management Company.

The Group approved the concept of IT Security in 2007 and proceeded to launch the Project for IS Standards Development and IS Risk Management Solutions. Metalloinvest Management Company successfully passed the ISO/IEC 27001:2005 certification audit.

Intellectual Property

As at 31 March 2011, the Group holds 164 Russian invention patents, 3 utility model patents, and 11 trademark certificates. The invention and utility model patents owned by the Group cover the development of new methods of iron ore extraction and processing, production of higher value-added products (which include HBI), protection of new grades of steel and related production technology, protection of new production technology relating to metallic products manufactured by the Group and improvement of their quality, as well as the quality of metallurgy equipment and construction of new mechanisms. The purpose of software developed by the Group on its own is to optimise administration, analysis of and control over technical equipment as well as optimisation of work with informational technology.

Social and Community Programmes

The Group's social policy covers employees of Group companies, as well as their family members and the residents of areas where the Group has a presence. The Group's social policy is designed to create favourable conditions to tackle production issues, reduce risks in the social and labour spheres, and develop effective interactions with local communities based on corporate citizenship principles.

The priority areas at the social policy include healthcare for employees and residents of the towns where the Group has a presence and support for their families, motherhood and childhood support, and the creation of a favourable socio-cultural environment in the towns of Gubkin, Zheleznogorsk Novotroizk and Stary Oscol. These policies are designed to maintain the necessary quality of human and labour potential in these areas, and to fulfil obligations under collective labour agreements, which cover over 90% of the Group and its subsidiaries' employees.

The Group's total budget for social and community programmes amounted to about RUB 2.5 billion in 2010, which includes the cost of social infrastructure maintenance.

Three key areas include: providing healthcare and rehabilitation to employees and their children, family and maternal support, and support to veterans and pensioners. In addition, the Group supports various sports and cultural events for employees and their families.

A Social Council was established in 2007 to achieve a balance of social and economic interests between employers and employees of the Group, as well as to enable decision-making on social and labour relations. Social Council members include a trade union organisation, along with the Group and its subsidiaries' management. The Social Council has indicated that it is satisfied that the Group discharged its commitments to employees under collective labour agreements in 2010.

The Group also allocates a portion of its budget to implement social programmes to benefit local communities and to promote sustainable development in the regions where the Group has a presence—the towns of Gubkin, Zheleznogorsk, Novotroizk, and Stary Oscol. These programmes are designed to create an enabling socio-cultural environment and increase the potential of the municipalities, through creation of new resources for their development across areas such as local administration, sports and health, education, and cultural heritage.

Litigation and Other Proceedings

The Company and its subsidiaries have been and will continue to be subject to legal and arbitration proceedings from time to time, which arise in the usual course of business as with any major company. As at the date of the Prospectus, neither the Group nor any of its members are, or have been, the subject of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the last 12 months which may have or have had in the recent past significant effects on the Group and its members' financial positions or profitability, including, but not limited to tax disputes, disputes related to environment matters, matters related to the fulfilment of conditions of licence obtainment or licence violations, and are not aware of any such proceedings which are pending or threatened.

INDUSTRY OVERVIEW

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Group believes to be reliable. The Group accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

IRON ORE INDUSTRY

Overview

Iron ore is the primary raw material used to produce steel. Since steel represents almost 95% of the metal that is used in the world each year, iron ore may be considered as the one of the most integral raw materials/commodities to the global economy. Most of the iron ore consumed worldwide is smelted in a blast furnace with coke and limestone to produce pig iron. The remainder is used in a variety of other applications, including the production of cement, pigments, agricultural products and specialty chemicals.

Supply of iron ore is supported by a large global resource base. In Mineral Commodity Summary, January 2011, the United States Geological Survey ("**USGS**") estimates the global resource base exceeded 800 billion tonnes of crude ore in 2010, containing more than 230 billion tonnes of iron.

Iron ore is traded globally as a commodity. Demand growth has been strong in recent years and has led to a tightening of supply with prices generally increasing. Contract prices, as published by Vale and Rio Tinto, for iron ore fines increased every year from 2003 to 2008 by an average of 35.4% before dropping in 2009. However, they recovered quickly, exceeding pre-2009 numbers in 2010. On average, April to March financial year contract prices increased by 118.1% during 2010 and have further increased by an average of 22.4% since April 2011 according to CRU.

Iron ore is found in many forms, each of which is distinct in terms of both its chemical and its physical properties. From a chemical perspective, iron content in the ore is the most important factor in determining the product's value. Impurities, such as silica, phosphorous, alumina and sulphur, can also affect the productivity of a furnace, and the quality of the finished steel product. From a physical perspective, there are also important distinctions that affect the value and marketability of the ore. Iron ore is marketed as lump, fines, concentrate or pellets.

Generally iron ore is produced from two types of iron ore mineral, hematite and magnetite. The amount of iron (Fe) contained in iron ore varies; hematite ores are usually high grade (>60% Fe) and magnetite lower grade (<30% Fe). Sometimes deposits can be a mixture of the two ores. Hematite ores typically produce lump and fines through crushing and screening. Magnetite ores require upgrading so are beneficiated as well, this process decreases the grain size of the material and usually produces a pellet feed or concentrate product. Magnetite ores produce an exothermic reaction during sintering or pelletising, giving rise to an energy credit. This credit is more noticeable in the pelletising process. Despite an additional beneficiation cost, magnetite ores are often located in areas with low mining and transportation costs. Low labour and energy costs, coupled with the energy credit from pelletising a magnetite ore, place some magnetite operations in the first quartile of the iron ore pellet cost curve. CRU places the Group's operations in the first quartile of the 2010 iron ore pellet cost curve.

A description of the products obtained from both types of ore deposit, and their relative values, is given below.

Fines, with a typical size range of 150μm to 6.8mm, are the baseline product in the iron ore market, from which other products are priced. Fines are agglomerated into pebble-sized balls of ore called 'sinter' at the sinter plant of a steel mill before use in a furnace. This process involves mixing the fines with a flux and baking; the resultant operating cost causing fines to have a lower relative value than lump ore and pellets, as the latter two can be directly charged to a furnace. Sinter is not commonly a traded product, although one merchant sinter plant does exist in the Philippines.

Lump ore is irregularly sized lumps of iron ore with a typical size of 6.8mm – 15mm, which can be charged directly into a furnace, enabling a steel producer to avoid the cost of sintering iron ore fines. Lump therefore is sold at a premium to fines, in order to account for this cost saving.

Pellets have uniform size of about 10mm and composition, which gives them the highest value in use, meaning they provide the most efficient source of iron units to a furnace. As such, they command a strong value position. The pellet premium is strongly linked to this value in use figure, but can be far greater in a tight market. Pellets are manufactured by the agglomeration of pellet feed in a pelletising plant, so the premium must be set against the cost of pelletisation.

Pellet feed is a product that has the lowest grain size (60μm–150μm) and is the feedstock for pellets. As pelletising is more costly than the sintering process required for fines the material may sell at a discount. However this is often offset by a higher Fe content.

Some iron ore products are referred to as 'concentrate'. This is a term used to describe a material that has undergone beneficiation at the mine and can refer to either pellet feed or fines. The opposite of concentrate is direct shipping ore.

The variability in technical specifications and the global nature of its production (and thus the reliance on bulk shipping to reach market) has resulted in a pricing structure for iron ore that makes a value adjustment for different materials. The process takes into account the value of material to the specific consumer, including the level of impurities and freight cost.

Global Iron Ore Supply

The global iron ore industry is characterised by a high degree of consolidation with BHP Billiton, Vale and Rio Tinto accounting for 27% of world iron ore production and approximately 56% of total seaborne trade in 2010.

In 2010, global iron ore production totalled 2,282 million tonnes. The three largest producers of iron ore in 2010 were Australia, Brazil and China, which together accounted for 71% of apparent production, by tonnage, of crude ore produced in 2010.

The major iron ore exporting countries globally include Australia, Brazil and India, and the major importers are major steel producing countries such as China, Germany, Japan and South Korea. In 2010, China imported 619 million tonnes of iron ore, a 61% increase on 2007, and 57% of the world's total iron ore imports.

According to CRU, global production of iron ore is expected to increase by 9.8% in 2011, to 2,505 million tonnes and is also forecast to continue expanding, reaching 2,801 million tonnes in 2014. Chinese ore is low-grade (33% Fe on average) and costly to mine and process, so as tightness in the iron ore market eases, Chinese steelmakers are expected to rely increasingly on imported ore, particularly from Australia and Brazil.

The following table sets forth total apparent iron ore production by country or region for 2007 through 2010:

World Iron Ore Production in 2007 – 2010 (million tonnes)

	2007	2008	2009	2010	CAGR 2007-2010
China	708.7	824.0	676.5	871.0	7.1%
Brazil	290.8	301.2	258.4	310.5	2.2%
Australia	294.7	341.3	398.9	439.8	14.3%
CIS	190.2	177.4	165.7	184.6	-1.0%
India	173.7	187.8	203.0	195.8	4.1%
U.S.	51.5	50.3	27.5	43.1	-5.8%
South Africa	41.8	42.6	53.7	64.0	15.3%
European Union (27 countries)	27.5	26.5	19.5	23.9	-4.6%
Other Europe	6.7	7.5	7.5	7.4	3.4%
South America (excluding Brazil)	27.7	26.7	20.4	19.7	-10.6%
North America (excluding U.S.)	52.2	49.8	48.8	52.7	0.3%
Rest of the World	54.0	54.0	52.3	69.1	8.6%
Total	**1,919.5**	**2,089.2**	**1,932.1**	**2,281.6**	**5.9%**

Source: CRU

Globally, the following three producers have historically led the market:

- **Vale** is the world's largest single producer of iron ore and pellets. Vale also owns 50% of Brazilian iron ore producer Samarco along with BHP Billiton. Vale produced 307.8 million tonnes of iron ore in 2010, including its share in Samarco.
- **Rio Tinto** is the second largest iron ore producer globally. Rio Tinto's iron ore division includes the wholly owned Hamersley Iron, the 53% owned Robe River Iron Associates, and other interests in North and South America. In 2010, Rio Tinto produced 189.0 million tonnes of iron ore, according to CRU.
- **BHP Billiton** is the third largest iron ore producer and exporter globally. The company owns and operates six iron ore mining areas in the Pilbara of Western Australia: Mt. Newman, Goldsworthy, Jimblebar, Yandi, Yarrie and Area C. The company also owns 50% Brazilian iron ore producer Samarco with Vale. BHP Billiton produced 137.0 million tonnes of iron ore in 2010, including its share in Samarco, according to CRU.

Global Exports

Global exports of iron ore were 1,082 million tonnes in 2010. Australia and Brazil were the leading exporters., while China imported more than a majority, or approximately 57%, of all traded iron ore.

In 2011, global exports of iron are forecast to rise by 9.3% year-on-year to 1,182 million tonnes, according to CRU. Of this, China will import 701 million tonnes—several times the volume of any other country—and 62% of global seaborne trade. Global exports are forecast to rise to 1,457 million tonnes in 2014: an increase of 7.2% per year, on average from 2011. According to CRU, China's imports are expected to rise to 933 million tonnes, or 66% of global seaborne trade, in 2014.

The table below summarizes the world's iron ore exports in 2007-2010:

World Iron Ore Exports in 2007 – 2010 (million tonnes)[1]

	2007	2008	2009	2010	CAGR 2007-2010
Australia	286.2	333.1	392.8	431.6	14.7%
Brazil	270.5	283.0	265.8	314.7	5.2%
India	91.3	100.8	113.9	103.2	4.2%
CIS	42.1	40.7	44.3	51.1	6.7%
South Africa	31.4	33.2	45.3	49.1	16.0%
China	0.0	0.0	0.0	0.0	0.0%
European Union (27 countries)	19.5	17.9	15.9	19.0	-0.9%
Middle East	7.9	8.7	9.0	18.8	33.4%
Rest of the World	89.3	82.9	77.6	94.2	1.8%
Total	**838.2**	**900.3**	**964.7**	**1081.6**	**8.9%**

Source: CRU

1 CRU: consistent with table above

Global reserves

The table below summarises the world's largest iron ore reserves, by company, for the year ending 31 December 2010. The Group has the second largest reported reserves (proven and probable), resources and reserves to life ratio based upon 2010 production levels:

Top Five Global Iron Reserves by Company 2010 (million tonnes)

Company	Reserves (proven & probable)	Resources	Mined production	Saleable production	Reserve life
Vale**	15,078	N/A	307.8	N/A	50.8
The Group*	14,881	15,428	91.5	36.8	162.6
BHPB**	3,958	6,790	137.0	128.1	28.9
Rio Tinto	2,595	7,881	189.0	184.6	13.8
Fortescue metals	1,540	2,835	43.9	38.8	35.1

Source: Based on published annual reports and/or interim operating results of respective companies.

Note: With companies referring to their reserves/resources by different standards, the data in this table is given as a best approximation to the following definitions: Reserves—deposits which are legally, economically and technically feasible to extract; Resources—deposits that are potentially valuable, and for which reasonable prospects exist for eventual economic extraction. Reserve life is defined as the ratio of reserves (proven and probable) to mined production.

* *Measured and indicated only. The Group's reserves and measured and indicated resources were provided by IMC as at 1 July 2010.*

** *Net of shares of Samarco reserves, resources and production. Value does not disclose saleable production. BHPB reserves and resources as at 30 June 2010.*

Global Iron Ore Demand

Historically, Europe, Japan and China have been the major iron ore consumption centres. Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with China and certain countries in the CIS showing significant increases in demand in connection with increases in steel production in these countries. Since that time, global consumption of steel, and thus of iron ore, has significantly increased. China has experienced the highest growth in steel consumption, with an increase in demand of more than 76.6% from 383.6 million tonnes in 2006 to 677.5 million tonnes in 2010 according to CRU.

Total global apparent iron ore consumption reached 2,282 million tonnes in 2010, according to CRU. This represented an increase of 18.9% over 2007 levels. Consumption is dominated by China, which accounted for about 63% of global demand in 2010.

The following table sets forth total iron ore consumption by country or region for 2007 through 2010:

World Iron Ore Consumption in 2007 – 2010 (million tonnes)

	2007	2008	2009	2010	CAGR 2007-2010
China	1,069.2	1,247.1	1,263.2	1,443.6	10.5%
Brazil	51.1	48.3	34.2	43.2	-5.4%
Australia	9.5	9.0	6.4	9.0	-1.8%
CIS	148.5	137.5	121.5	133.4	-3.5%
India	82.9	87.1	90.1	93.9	4.2%
Japan	138.2	137.3	106.5	131.0	-1.8%
U.S.	52.3	48.6	27.7	39.0	-9.3%
South Africa	10.8	9.7	8.7	15.3	12.2%
European Union (27 countries)	178.2	171.8	92.5	142.6	-7.2%
Other Europe	13.9	15.3	13.7	14.0	0.2%
South America (excluding Brazil)	21.6	20.8	15.0	13.6	-14.3%
North America (excluding U.S.)	36.1	35.8	24.1	32.5	-3.5%
Rest of the World	107.1	120.9	128.6	170.6	16.8%
Total	**1919.5**	**2089.2**	**1932.1**	**2281.6**	**5.9%**

Source: CRU

CIS Iron Ore Supply

According to CRU, the CIS produced 184.6 million tonnes of iron ore in 2010 (8.1% of global production), of which 133.4 million tonnes were consumed within the region. In the CIS, iron ore production is mainly concentrated in Russia, Ukraine and Kazakhstan.

A large proportion of CIS iron ore exports are pellets. Total pellet exports from the CIS rose by 21% from 2009 to 2010. Production of pellets in the CIS was 65.5 million tonnes in 2010.

In 2011, production iron ore in the CIS is expected to increase by 6.5%, according to CRU. Exports are expected to grow 2.2% year-on-year over 2011 to 2014.

Russia is the largest iron ore producer in CIS, accounting for more than 52% of total CIS iron ore production, according to CRU. The majority or iron ore produced is consumed internally; the rest is exported mainly to Eastern Europe and China via both railway and sea routes. Imports to Russia are generally limited by high transportation costs and particularities of technology of Russian steel mills.

Production of iron ore in Russia is concentrated in the Kursk region, representing the majority of Russian production, as well as in the northwest, Urals and Siberian districts. Iron ore produced in Russia is mainly magnetite, not hematite, which is common in Brazil and Australia.

Iron ore production in the CIS is highly concentrated. In the CIS the eight largest producers (the Group, Metinvest, Evraz, ENRC, Severstal, Ferrexpo, Mechel, and NLMK) accounted for approximately 80% of total iron ore production in country in 2010.

- **The Group** is the largest producer of iron ore in the CIS. Operating from LGOK and MGOK located in Western Russia, the Group excavated 91.5 million tonnes of iron ore in 2010 resulting in 36.8 million tonnes of saleable iron ore product. LGOK produced 19.8 million tonnes of concentrate, 5.3 million tonnes of non-fluxed pellet and 3.5 million tonnes of fluxed pellet. MGOK produced 15.3 million tonnes of concentrate, 9.7 million tonnes of pellet, 1.3 million tonnes of sinter fines and 0.4 million tonnes of lump ore (Russian BF ore) in 2010. OEMK produced a further 3.5 million tonnes of pellet consumed in house for the production of 2.4 million tonnes of Direct Reduced Iron.
- **Metinvest** is the second largest iron ore producer in the CIS. Based in Ukraine, the company produced 34.7 million tonnes of saleable iron ore in 2010. The key iron ore subsidiaries are Tsentralny GOK, Inguletsky GOK and Severny GOK. In contrast to the Group, Metinvest consumes the most part of its iron ore internally.
- **Ferrexpo** is a Swiss headquartered resource company with assets in Ukraine. It is principally involved in the production and export of iron ore pellets which are used in the manufacture of steel. The Ferrexpo Group currently produced approximately 10 million tonnes of iron ore pellets in 2010.
- **Evraz** is a vertically integrated steel company with assets in the Russian Federation, Ukraine, China, Czech Republic, Italy, Romania, South Africa and the U.S. The company owns three iron ore complexes in the Russian Federation (EvrazRuda, Kachkanarsky GOK, Vysokogorsky GOK) and one in Ukraine (Sukhaya Balka). It produced approximately 19.0 million tonnes of saleable iron ore products in 2010.
- **ENRC** is one of the world’s largest producers of ferrochrome; a significant exporter of iron ore; and one of the largest electricity providers in Kazakhstan. Through its subsidiary, the Sokolov-Sarbai Mining Production Association (“SSGPO”), the company produced 8.94 million tonnes of saleable concentrate and 8.0 million tonnes of pellets in 2010.
- **Mechel** is a vertically integrated mining and steel companies company focused on the production of mining products, such as coal, iron ore, nickel, and steel products. It is one of the leading mining and steel companies in Russian and has subsidiaries in 12 regions across Russia, Kazakhstan, the United States, Romania, Bulgaria and Lithuania. Its iron ore operations consist of Korshunov Mining Plant, which produced 4.2 million tonnes of iron ore concentrate in 2010.
- **Severstal** is a leading international steel producer with three business divisions: Severstal Resources, Severstal Russian Steel and Severstal International. Severstal Resources manages all of Severstal’s mining assets including two high-quality iron ore mining complexes in northwest Russia (Karelsky Okatysh and Olcon). The Karelsky Okatysh complex produced 9.8 million tonnes of pellets in 2010. The Olcon plant meanwhile produced 4.3 million tonnes of concentrate.

The table below summarises major CIS iron ore reserves, by company, for the year ending 31 December 2010:

CIS Iron Reserves by Company 2010 (million tonnes)

Company	Reserves (proven & probable)	Resources	Mined Production	Saleable Production	Reserve life
The Group*	14,881	15,428	91.5	36.8	162.6
Metinvest **	1,867	7,433	N/A	34.7	N/A
Evraz	1,712	N/A	67.6	19.0	25.4
Ferrexpo	1,502	4,751	28.9	11.2	52.0
ENRC (SSGPO)	1,382	3,525	43.6	17.8	31.7
Severstal**	628	2,671	43.2	14.5	14.5
Mechel	120	110	11.1	4.2	10.8

Source: Company data, Rudprom

Note: With companies referring to their reserves/resources by different standards, the data in this table is given as a best approximation to the following definitions: Reserves—deposits which are legally, economically and technically feasible to extract; Resources—deposits that are potentially valuable, and for which reasonable prospects exist for eventual economic extraction. Reserve life is defined as the ratio of reserves (proven and probable) to mined production.

* *Measured and indicated only. The Group's reserves and measured and indicated resources were provided by IMC as at 1 July 2010.*

** *Reserves and resources as on 1 January 2010*

CIS Iron Ore Demand

Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with certain countries in the CIS showing significant increases in demand in connection with increases in steel production in these countries.

Russia has abundant, relatively low (averaging approximately 35% iron content), iron ore reserves. The country also has a large coking coal resource base. According to CRU, total iron ore production in Russia in 2010 was approximately 96.9 million tonnes, total iron ore exports were approximately 20.4 million tonnes and total imports were approximately 5.4 million tonnes. Imports to Russia are generally limited by high transportation costs and the lack of port facilities in the Far East and on the Black Sea that are capable of handling large sizes of ore carrying vessels. Russian steel consumption is expected to grow in the coming years. As Russian steel producers increase capacity, given their high level of raw material integration, the corresponding requirement for iron ore should increase.

Ukraine is the second-largest steel producer in the CIS after Russia. Ukraine has the largest iron ore reserve base of any country in the world. However, Ukraine's iron ore is low grade, with an average iron content of just 29%. This ore is typically beneficiated and used to produce iron ore pellets. According to CRU, total iron ore production in Ukraine in 2010 was approximately 63.7 million tonnes, total iron ore exports were approximately 27.6 million tonnes and total imports were approximately 2.7 million tonnes. The Ukrainian steel industry is expected modernise over time, but a significant steel capacity expansion in the country is not expected over the next several years. As a result, most Ukrainian iron ore production growth would be driven by exports in the long run.

Iron Ore Price-Setting Mechanism (contract and spot):

- **c/dmtu**: Iron ore is priced in cents per Dry Metric Tonne Unit (c/dmtu). Effectively this is the same as U.S.$ per tonne of iron contained, divided by 100. This method accounts for different iron concentrations and free moisture contents in the ore produced from different mines.
  - ***Example***: to change a price in c/dmtu into U.S.$/tonne of wet ore, first multiply the price in c/dmtu by the iron content of the ore (as a percentage), and divide by one plus the moisture content. So if an ore with an iron content of 70% and a free moisture content of 10% were valued at 100c/dmtu, then the equivalent price in U.S.$/tonne of (wet) ore would be:

$$\frac{100 \text{ c/dmtu x } 70\%}{(1+10\%)} = \$63.64/\text{tonne}$$

Conversely, to convert a price in U.S.$/tonne into c/dmtu, using the same parameters given above—the following calculation would be made:

$$\frac{\$63.64/\text{tonne x } (1+10\%)}{70\%} = 100 \text{ c/dmtu}$$

- **Benchmark prices:** Prices were historically set on an annual basis, after several months of negotiations between the three major iron ore producers, and major steel customers. Brazilian (Vale) iron ore is represented by the Itabira fines and Tubarao pellet benchmarks, and Australian (BHP Billiton and Rio Tinto) iron ore by Hamersley lump and fines.
- **Quarterly pricing:** Recently, there has been a shift towards quarterly pricing. In addition a spot market has developed, based on exports of Indian ore to China, with daily quotations. This trend to continue with the end result being an established quarterly pricing mechanism linked formally or informally to spot prices.
- **Netback value:** Iron ore producers, other than Vale, BHP Billiton and Rio Tinto, have little pricing power. Consequently, their prices are set using benchmark prices and adjusting for value-in-use and freight costs. This calculation is called a netback.
- **Value-in-use (VIU):** This is a term used to describe the adjustments made to benchmark prices to account for differences in chemistry between a particular product and the relevant benchmark product against which it is being priced. Such differences may lead to variations in costs at the steel mill. For example, an ore with higher levels of silica and/or alumina may incur a larger coke consumption cost and slag formation in the blast furnace, and this additional cost may be accounted for in the form of a discount from the benchmark price.

Iron ore prices increased strongly between 2006 and 2008; the Hamersley fines price (given by Rio Tinto for their Australian ore sales), for example, exhibited a 99% increase. Historically, the price of iron ore has been set at four benchmark locations on an annual basis, usually in April. Since the advent of the spot market, spot prices tend to dictate the level of the benchmark settlement. The increase was driven by increased demand from China, following a period of underinvestment in the iron ore mining due to prolonged low prices. This led to a very tight market and enabled iron ore miners to push through larger price increases each year.

Iron ore prices collapsed during the global financial crisis, a result of depressed steel demand caused by the reduction in spending and fixed asset investment. This reduction led to a drop in iron ore prices; the price of Hamersley fines dropped by 33%, while lump and pellet dropped by 45% and 48% respectively. The reason for the larger drop in lump and pellet prices is that these are premium products purchased over and above the sinter fines base load in a steel mill.

As the global economy recovered in late 2009 and 2010, the spot price for iron ore increased and as spot prices are an indicator of the quarterly contract price this led to an increase of around 90% in the contract price for the April-June quarter of 2010 from the previous quarter. Since this time, spot prices into China for 63.5% Fe material have traded at historically high average monthly prices, ranging from U.S.$123/tonne to U.S.$197/tonne, according to CRU. For the April to June 2011 quarter spot prices into China averaged U.S.$184/tonne according to CRU, the same average achieved on the previous quarter.

The table below presents iron ore prices from 2006 until 2011.

Iron Ore Prices, 2006-2011 (U.S. cents/dmtu FOB)

	2006	2007	2008	2009	2010	2011e	CAGR 2006-2011
Hamersley Fines	71	78	140	94	214	262	29.8%
Hamersley Lumps	94	103	202	112	245	300	26.2%
Tubarao BF Pellets	112	118	220	114	249	304	22.1%
Carajas Fines	74	81	134	97	201	244	26.8%

Source: CRU

DRI/HBI INDUSTRY

Global Overview

Direct reduced iron (“**DRI**”) and hot briquetted iron (“**HBI**”) are innovative iron ore products which consume half the energy required in the production of pig iron with the traditional blast furnace technology.

Once mined, crude iron ore is generally concentrated or beneficiated to upgrade the iron content after extraction, but before being reduced to metallic iron (hot metal or pig iron). Reducing the iron into a metallic product ready for steelmaking can be achieved in two ways. Firstly, in a blast furnace, the iron is charged in combination with limestone flux and coke and is heated with air to produce hot metal. Alternatively the iron ore may be directly reduced by having the oxygen removed from ferrous oxide by means of reducing gases. This process is called direct reduction and produces DRI.

DRI is a premium iron product made from iron ore. It is used for steelmaking with 68.9 million tonnes produced worldwide in 2010 according to CRU. HBI is a compacted form of DRI designed for ease of transportation and storage.

During direct reduction, oxygen is removed from iron ore in a solid state. This procedure results in a structure with a high porosity. Hot briquetting has become the most reliable process for making DRI denser immediately after reduction. Together with pig iron and ferrous scrap, DRI/HBI makes up the steel raw materials sector called metallics. Products that have already been, or do not need to go, through a blast furnace are turned into steel in a Basic Oxygen Furnace ("**BOF**") or an Electric Arc Furnace ("**EAF**").

HBI is a unique raw material for steel production with hot iron ore content of 90-92%. Hot briquetting of DRI closes internal pores, lowers the accessible surface, increases the density, and improves thermal conductivity—all of which reduce reactivity with oxygen. Re-oxidation and overheating of HBI are very unlikely, and this results in considerable improvements in storage and transport characteristics. The physical characteristics of HBI are higher density, improved handling, uniform product shape and size, as well as reduced fines production.

The production process for HBI is fairly standardised. Nearly all merchant HBI mills use the Midrex process. DRI is discharged from the reduction process. This hot feed is pushed into a nip between two counter-rotating rollers with a screw. Pockets in the synchronously rotating rollers form the briquettes. The process occurs at high temperatures (approximately 700°C) and with a high amount of pressure. The continuous string of briquettes leaving the rollers is guided by a chute, and they are separated by a rotor using impact bars.

The largest component of operating costs is iron ore. Midrex plants require DRI grade pellet, produced from size-graded fines. The majority of large producers depend on imported iron ore from seaborne producers. The second biggest component of costs is natural gas. With the exception of western India, all of the plants are located in regions where gas is available at a low cost. Labour and electrical power are minor elements of cost. The other main elements, sustaining capital and maintenance, vary less with scale than would be expected due to the modular nature of HBI technology.

The following table details the production capacity of the top ten HBI/DRI producers globally as at 31 December 2010:

Global HBI/DRI Capacity by Company 2010

Company name	Location	Markets served	Production capacity (million tonnes)
Arcelor Mittal	International	Global	9.0
Essar Steel	India	India/Asia	5.3
The Group	Russia	CIS/MENA/Europe/Asia/USA	4.8
Hadeed (SABIC)	Saudi Arabia	MENA	4.3
Mobarakeh Steel	Iran	MENA	4.0
Khouzestan Steel	Iran	MENA	3.7
SIDOR	Venezuela	North & South America	3.0
PT Krakatau Steel	Indonesia	Asia	2.5
EZDK	Egypt	MENA	2.3
Orinoko Iron	Venezuela	North & South America	2.2
		Top Ten Total	**41.1**
		Global Total	**70.8**
		Top Ten %	**58.1%**

Data: Midrex, Group data
Note: Total capacity excludes plants under construction.

CIS DRI/HBI Overview

The Russian Federation is the only producer of DRI/HBI in the CIS with production coming from LGOK and OEMK, both owned by the Group. LGOK has capacity to produce 2.4 million tonnes per year of HBI and OEMK has capacity for 2.4 million tonnes per year of DRI which supplies the company's own EAF.

DRI/HBI supply

HBI is produced only in a handful of countries: the Russian Federation, India, Libya, Malaysia, Trinidad & Tobago and Venezuela according to CRU. Venezuela is the largest producing country. In order to produce HBI, high quality iron ore and access to affordable sources of natural gas are required making Russia one of the world's key HBI producing regions.

The following table details the levels of global DRI and HBI production in 2006-2010:

DRI/HBI Production by Region

	2006	2007	2008	2009	2010	CAGR 2006-2010
India	14.74	19.06	21.20	22.03	24.40	10.6%
Iran	6.85	7.44	7.46	8.20	8.83	5.2%
Saudi Arabia	3.58	4.34	4.97	5.03	5.38	8.5%
Mexico	6.17	6.26	6.01	4.15	4.90	-4.5%
Russian Federation	3.28	3.41	4.56	4.67	4.76	7.7%
Egypt	3.10	2.79	2.64	2.91	3.76	3.9%
Venezuela	8.61	7.71	6.87	5.61	3.25	-17.7%
Trinidad & Tobago	2.08	3.47	2.78	1.99	2.53	4.0%
Malaysia	1.54	1.84	1.94	2.30	2.36	8.9%
Americas (excl. Mexico, Venezuela and Trinidad and Tobago)	3.16	3.42	3.18	1.43	1.93	-9.4%
Africa (excl. Egypt)	3.38	3.53	2.95	2.50	2.29	-7.5%
Other	3.16	3.91	3.67	4.35	4.56	7.6%
Total	**59.65**	**67.18**	**68.23**	**65.17**	**68.94**	**3.9%**

Source: CRU, IISI, Midrex, HYL

According to CRU total DRI/HBI production grew at a rate of 4.2% from 2004 to 2010. The largest DRI producers were India, Iran, Saudi Arabia, Mexico, Russia, Egypt and Venezuela, with Russia being one of the fastest growing producers of HBI/DRI. Being the only DRI/HBI producer in Russia and the CIS, the Group has a 100% share in CIS and 6.9% share in global DRI/HBI production.

According to CRU, total Russian production of DRI/HBI in 2010 was 4.8 million tonnes with the majority of this DRI/HBI sold to CIS, Asian, MENA and European consumers.

DRI/HBI demand

Most HBI is consumed in EAFs, though it is also possible to use HBI as a coolant in BOFs as an alternative to scrap. HBI is consumed mainly where high quality metallics are required, such as steel sheet production. Asia, particularly India and Malaysia, is the largest consuming region. Much of this is captive consumption. North America was the second largest consuming region in 2007. Most international trade in HBI takes place over a limited geographic range. Russian HBI is consumed mainly in other CIS countries, Asia and Europe. Trinidadian HBI is consumed mainly in the Western Hemisphere, especially North America. African HBI is exported to Europe. Asian HBI remains almost entirely within Asia, to the extent that it rarely leaves its country of origin. Only Venezuelan HBI is exported to a wide range of destinations around the world.

The Group was the leading merchant HBI producer worldwide in 2010 with a global market share of 36%, based on Midrex and Group data.

DRI/HBI Consumption by Country

The following table details the levels of global DRI and HBI consumption in 2006-2010.

DRI/HBI Consumption by Region

	2006	2007	2008	2009	2010	CAGR 2006-2010
India	14.7	19.0	21.2	22.0	24.5	13.6%
Iran	6.9	7.5	7.6	8.2	9.1	7.2%
Saudi Arabia	3.6	4.6	5.0	5.0	5.5	11.4%
Mexico	6.4	6.4	6.1	4.2	5.2	-5.4%
Egypt	3.1	2.8	3.1	3.0	3.7	4.1%
Russian Federation	2.1	1.9	2.1	3.0	2.7	7.0%
Malaysia	1.3	1.5	1.7	2.1	2.5	16.9%
Asia (excl. India, Malaysia)	2.8	3.4	2.8	4.1	3.9	8.4%
Americas (excl. Mexico)	11.3	12.7	10.4	7.5	5.5	-16.3%
Other	6.6	6.9	6.7	5.6	6.4	-0.4%
Total	**58.7**	**66.7**	**66.6**	**64.7**	**68.9**	**4.1%**

Source: CRU, Midrex

STEEL INDUSTRY

Overview

As one of the most adaptable and cost-effective materials, steel is widely used in infrastructure development, construction, and manufacturing industries such as automotive, shipbuilding, railway, machinery and electronic appliances. Global finished steel consumption volume has been increasing steadily, growing at a compound average annual growth rate of 5.6% between 2004 and 2008 according to Worldsteel, largely driven by economic and industrial growth in China. In late 2008—2009 crude steel production was reduced due to the global financial crisis, but in 2010 steel production reached new level of 1.414 million tonnes led by economic recovery.

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

Steel products can be divided into two categories: long products and flat products.

Long products are so called because they come off the mill as long bars of steel. These products come in a large range of shapes and sizes. They can have cross-sections shaped like an H or I (joists, beams and columns), a U (channel) or a T. These types of steel section are primarily used for construction. Some long products are in the form of bars and have cross-sections the shape of squares, rectangles, circles, hexagons, angles. Other types of long products include railway rails, piling and reinforcing bars for concrete.

Flat products are so called because they come in flat shapes (sheets or plates). These products are typically made by rolling steel through sets of rollers to produce the final thickness. Flat products include plates, hot-rolled strips and sheets, and cold-rolled strip and sheets. These products come with a great variety of thickness and surface conditions. Hot-rolled sheet is one of the most widely used steel products and many other downstream products are made from it. Hot-rolled sheets are also the substrate material for cold-rolled sheet, galvanized steel, silicon steel and other products. Flat rolled steel has applications in construction, transportation, pipe manufacture and domestic appliances.

Global Steel Supply

The following table sets forth crude steel production data by region for 2007 through 2010:

Crude Steel Production by Region for 2007-2010

	2007	2008	2009	2010	CAGR 2007-2010
Europe	240.3	229.8	167.6	206.0	-5.0%
CIS	124.2	114.3	97.5	108.4	-4.4%
North America	132.6	124.5	83.4	111.8	-5.5%
South America	48.2	47.4	37.8	43.8	-3.2%
Africa	18.8	17.1	14.8	17.2	-2.9%
Middle East	16.5	16.6	17.0	19.0	4.9%
China	489.9	500.3	573.6	626.7	8.6%
Rest of Asia	272.0	270.7	214.8	254.5	-2.2%
Oceania	8.8	8.4	6.0	8.1	-2.5%
Total	**1351.3**	**1329.1**	**1211.5**	**1413.6**	**1.5%**

Source: WorldSteel

On a global level, the steel industry is fragmented compared to other commodity industries. The top 10 steel firms worldwide, in 2009, accounted for 23.5% of total crude steel production according to Worldsteel. In the seaborne iron ore trade, it was at least 56% for the leading three producers, according to CRU.

The top ten steel producers in 2010 can be seen on the chart below:

Top Ten Steel Producers 2010

Company name	Location	Markets served	Production capacity (million tonnes)
Arcelor Mittal	International	Global	90.5
Hebei Steel	China	Asia/Global	52.9
Baosteel	China	Asia/Global	44.5
Wuhan Steel	China	Asia/Global	36.6
Nippon Steel	Japan	Asia/Global	36.1
POSCO	South Korea	Asia/Global	33.7
JFE Steel	Japan	Asia/Global	32.7
Shagang Group	China	Asia/Global	30.1
Shougang	China	Asia/Global	25.8
Tata Steel	International	Asia/Global	23.5
		Top Ten Total	**406.6**
		Global Total	**1,417.1**
		Top Ten %	**28.7%**

Data: CRU

Global Steel Demand

The steel industry operates on a predominately regional basis for a number of reasons. Firstly, consumption of steel is often seen as an integral part of a nation's economic development, and its production is often regarded as strategic. This can lead to developing economies each building up their own domestic industry. Secondly, freight costs are typically high in relation to the product's value, reducing its competitiveness the further it travels. Finally, potential trade routes for steel can be blocked by import quotas, anti-dumping duties and countervailing duty orders.

The following table sets forth estimated finished steel consumption data by country or region for 2007 through 2010:

World Finished Steel Consumption by Region 2007-2010 (million tonnes)

	2007	2008	2009	2010	CAGR 2007-2010
Europe	223.4	206.6	141.1	174.4	-7.9%
CIS	55.5	48.9	35.8	48.5	-4.4%
NAFTA	141.5	129.0	82.7	110.3	-8.0%
Central & South America	41.0	44.3	34.1	45.8	3.8%
China	408.3	443.0	542.4	576.0	12.2%
Rest of Asia & Oceania	262.3	266.0	220.4	257.6	-0.6%
Other World	69.6	69.2	68.8	71.0	0.7%
Total	**1201.6**	**1207.0**	**1125.3**	**1283.6**	**2.2%**

Source: WorldSteel

CIS Steel Supply

The Russian steel market is highly consolidated with the top six producers (MMK, Evraz, Severstal, NLMK, The Group and Mechel) accounting for approximately 85% of total Russian steel production in 2010.

Evraz was the largest Russian steel producer in 2010 with 12.0 million tonnes of crude steel produced at its three steel plants Zapsib, NTMK and NKMK. Zapsib is one of the largest steel mills in Eastern Russia and concentrates its production on long products for the construction and engineering sectors. NTMK is located in Nizhny Tagil, Sverdlovsk region and is one of the oldest mining and steel production centres in Russia. NTMK's primary products are railway products (rails and wheels), construction products and pipe blanks, as well as semi-finished products. NKMK is an integrated iron and steel plant and one of the five largest rail producers in the world, based in the city of Novokuznetsk, Kemerovo region. In addition to rails, NKMK produces significant quantities of pig iron, plates and other semi-finished products.

The second largest producer in 2010 was MMK (Magnitogorsk Iron and Steel Works) with 11.4 million tonnes of crude steel produced at its Magnitogorsk plant. MMK produces a broad range of steel products with a predominant share of Russian downstream value added goods. A significant portion of its output is exported to various parts of the world.

Severstal produces steel from its Cherepovets plant located halfway between Moscow and St. Petersburg and produced for 11.0 million tonnes of steel products in 2010. The steel mill produces a wide assortment of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour coated products and long-steel applications.

NLMK's Lipetsk steel mill produced 9.3 million tonnes of crude steel in 2010. It produces pig iron, slabs, hot-rolled, cold-rolled, galvanised, pre-painted, transformer and dynamo steel. Its subsidiary NSMMZ is based in the Urals and produced 1.7 million tonnes of crude steel for wide range of long products.

The Group operates two steel mills in Russia and produced 6.1 million tonnes of crude steel, making it the fifth largest Russian steel producer. The Group produces a range of steel products including cast sections, long products and plates along with a selection of rolled products at its OEMK plant.

Mechel produced 5.2 million tonnes of crude steel in 2010 from its two steel mills based in Chelyabinsk and Izhevsk. Chelyabinsk Metallurgical Plant is a full-cycle steel plant and produces a diverse range of products including pig iron, rolled steel, semi-finished rolled products in carbon, specialty steels and forged billets. Its Izhstal plant produces rolled and calibrated bars from constructional, constructional alloyed, tool, and high-speed steel grades along with jewel steel, stainless welding wire, high precision shaped profiles, cold-rolled and flattened strips, stampings, and forgings.

The following table lists the major Russian steel producers in 2009-2010:

Major Russian Steel Producers (million tonnes)

Company	Plant	2009	2010	2010/2009, %	Type/Process
MMK	Magnitogorsk	8.22	9.53	16.0%	BOF
MMK	Magnitogorsk	0.47	1.21	158.4%	EAF
MMK	Magnitogorsk	0.93	0.68	-27.1%	OH
MMK	**Total**	**9.62**	**11.42**	**18.7%**	
Evraz (Zapsib)	Novokuznetsk	6.00	6.81	13.4%	BOF
Evraz (NTMK)	Nizhny Tagil	3.87	3.84	-0.8%	BOF
Evraz (NKMK)	Novokuznetsk	1.40	1.31	-6.2%	EAF
Evraz	**Total**	**11.27**	**11.95**	**6.1%**	
Severstal	Cherepovets	7.99	9.32	16.6%	BOF
Severstal	Cherepovets	1.55	1.75	12.9%	EAF
Severstal	**Total**	**9.54**	**11.07**	**16.0%**	
NLMK	Lipetsk	8.52	9.29	9.0%	BOF
NLMK	NSMMZ	1.73	1.72	-0.5%	EAF
NLMK	**Total**	**10.25**	**11.01**	**7.4%**	
The Group (Ural Steel)	Novotroitsk	1.91	1.25	-34.6%	OH
The Group (Ural Steel)	Novotroitsk	1.33	1.58	18.5%	EAF
The Group (OEMK)	Stary Oskol	3.25	3.27	0.6%	EAF (DRI)
The Group*	**Total**	**6.49**	**6.10**	**-6.0%**	
Mechel	Chelyabinsk	3.50	3.76	7.3%	BOF
Mechel	Chelyabinsk	1.20	1.40	16.7%	EAF
Mechel	Izhevsk	0.13	0.08	-35.1%	EAF
Mechel	Izhevsk	0.06	0.00	—	OH
Mechel	**Total**	**4.90**	**5.24**	**6.9%**	

Source: Companies Annual reports, Chermet

CIS Steel Demand

In 2009, the Russian Federation consumed approximately 199 kilograms of steel per capita and Ukraine consumed approximately 96 kilograms per capita according to Worldsteel. This is less than in countries such as South Korea and Japan that consumed 974 and 447 kilograms per capita, respectively. The United States consumed approximately 203 kilograms per capita in 2009 and Germany consumed approximately 358 kilograms per capita.

Imports of steel into the Russian Federation have generally been restrained by trade policy measures implemented by Russian authorities, as well as by the relatively high costs of transporting steel to customers in the Russian Federation. Russian trade policy has included anti-dumping measures, safeguard measures and compensatory payments. Anti-dumping measures are determined based on a comparison of import and domestic prices; safeguard measures are implemented based on damages to domestic producers; and compensation payments are required where evidence of foreign subsidies can be found.

Asia, the EU and the Middle East are the primary export destinations for Russian steel producers. The abolition of steel export duties in 2002 by the Russian government has also improved export market opportunities.

Steel Pricing Dynamics

Steel prices have been gradually increasing since the second half of 2009 and rose sharply in the first half of 2010. Steel prices decreased in subsequent months, but were on the rise again since the end of 2010. As at May 2011 CIS steel billet export prices had reached U.S.$620 per tonne, a 51.2% increase compared to December 2009, according to CRU. It may intensify pressure on steel prices but raw material pressures on steel prices may ease slightly by mid 2011.

Management believes there is a possibility of a correction of steel prices in the Russian market, considering that the cash margin of domestic non-integrated steel producers has almost approached a two-year peak level following the 25-30% surge in steel prices during the first quarter of 2011. Export flat steel prices are down more than 10% in the last month due to high inventories and low buying activity in Asia. Russian flat steel export prices have come off U.S.$90-110 per tonne in the last month due to low buying activity in the South-East Asia.

Steel Trade Restrictions

Global trade in steel products is subject to numerous protective tariffs, duties and quotas, though semi-finished products generally are not subject to such measures.

Several treaties between the Russian Federation and the EU regulate exports of certain steel products from the Russian Federation to the EU. Exports to the EU are conducted on the basis of licences issued by the Russian authorities and quotas established in accordance with the treaties. In July 2002, the Ministry of Economic Development and Trade of the Russian Federation and the European Commission entered into a new treaty on the export of Russian steel to the EU, pursuant to which the Russian steel export quota for 2002 was increased by 28%, to 1.21 million tonnes, and by a further 2.5% as compared to the preceding year in each of 2003 and 2004, to 1.23 million tonnes and 1.38 million tonnes, respectively. As a result of the incorporation of ten new members to the EU in May 2004, the Russian import quota was increased by 396 thousand tonnes, to a total of 1.78 million tonnes. In 2007, the Russian Ministry of Economic Development and Trade signed an agreement with the EU that provides for a quota of 2.9 million tonnes of export in 2008 and 3.03 million tonnes of export in 2009.

Exports of steel products from the Russian Federation are primarily regulated by the Law on Foreign Trade Activity and international treaties of the Russian Federation. There are several treaties with the United States, which establish minimum prices and/or quotas for certain types of steel products exported from the Russian Federation to the United States. These treaties also provide that the export of steel products by Russian exporters to the United States is conducted on the basis of licences issued by Russian authorities.

REGULATORY MATTERS

Regulation of the Mining and Steel Industries in the Russian Federation

The Russian Federation has not enacted any specific legislation governing the operation of the steel industry and the business of steel-manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and special legislation relating to, among other things, quality standards, industrial safety and the environment.

On 18 March 2009, the Ministry of Industry and Trade approved the "Strategy for Development of Metal Manufacture Industry of the Russian Federation for the Period till 2020" (the "**Strategy**"). The Strategy supersedes the "Strategy for Development of Metal Manufacture Industry of the Russian Federation for the Period till 2015" dated 29 May 2007. The Strategy, *inter alia*, outlined the key trends and factors relevant for the development of national ferrous and non-ferrous metallurgy and determined that innovative growth would be the priority for improving competitive strength of national manufacturers.

The Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended (the "**Technical Regulation Law**"), describes rules relating to the development, enactment, application and enforcement of obligatory technical requirements and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law supersedes the Laws of the Russian Federation "On Certification of Goods and Services" No. 5151-1 dated 10 June 1993 and "**On Standardisation**" No. 5154-1 dated 10 June 1993 and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. Under the Technical Regulation Law, technical rules and regulations relating to industrial safety and environmental protection can be enacted only by federal laws, decrees of the president and resolutions of the Government.

In those cases where the Technical Regulation Law provides for mandatory confirmation of product conformity to the established technical regulations (standards), certain Group companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of technical regulations, standards, codes of practice or terms and conditions of contracts.

In those cases where Russian laws and regulations relating to industrial safety provide for mandatory issuance of permits to use technical equipment at hazardous production facilities, certain Group companies are obliged to obtain the required permits which prove that their products meet the relevant industrial safety requirements.

Federal, Regional and Local Regulatory Authorities Governing the Mining and Steel Industries

At the federal level, regulatory authority over the steel industry is divided primarily between the Ministry of Industry and Trade and the Ministry of Natural Resources and Ecology. The Ministry of Industry and Trade is responsible for the development of governmental policy in, and regulation of, the industry. In addition, it regulates Russian exports and imports of steel products and coordinates intergovernmental negotiations relating to export and import regulations. Prior to 5 June 2008, the latter functions were performed by the Ministry of Economic Development and Trade, subsequently reorganised as the Ministry of Economic Development. The Ministry of Natural Resources and Ecology is responsible for the development of governmental policy and regulation in the sphere of natural resources, including subsoil.

On 14 February 2009, the Russian government founded the Government's Commission on development of metals production sector (the "**Commission**"). The main functions of the Commission is to coordinate the above-mentioned regulatory authorities' actions concerning development and implementation of state policy in the sphere of steel industry.

The federal ministries in the Russian Federation are not responsible for compliance control or management of state property and provision of services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that are relevant to the Group's activities include:

- The Federal Service for Environmental, Technological and Nuclear Supervision (the "**Rostekhnadzor**"), which sets procedures for, and oversees compliance with, industrial safety and environmental rules and issues licences for certain industrial activities and activities relating to safety and environmental protection;

- The Federal Agency for Subsoil Use, which organises auctions and issues licences for subsoil use and approves design documentation for subsoil production activities; and
- The Federal Agency for Technical Regulation and Metrology, which determines and oversees levels of compliance with obligatory state standards and technical regulations.

Aside from the above federal executive bodies, which are directly involved in regulating and supervising the steel sector in the Russian Federation, there are a number of other federal regulators that, together with their structural subdivisions, have authority over general issues relevant to the Russian steel industry, such as defence, internal affairs, security, border services, justice, tax enforcement, rail transport and other matters.

Generally, regional and municipal authorities with jurisdiction over the specific territory in which a steel-producing enterprise is located have authority in certain matters, in particular with regard to land-use allocations.

Licensing of Operations

The Group is required to obtain numerous licences, authorisations and permits from Russian governmental authorities for its operations. The Federal Law "On Licensing of Certain Types of Activities" No. 128-FZ of 8 August 2001, as amended (the "**Licensing Law of 2001**"), as well as effective provisions of the new Federal Law "On Licensing of Certain Types of Activities" No. 99-FZ of 4 May 2011 which shall supersede the Licensing Law of 2001 on 3 November 2011, as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. In particular, some of the Group's Russian companies need to obtain licences, permits and approvals of executive authorities to carry out certain activities, including, *inter alia*:

- the use of subsoil, which is described in more detail below in "Subsoil Licensing";
- the collection, utilisation, deactivation, transportation and disposing of hazardous waste of hazard classes I to IV;
- the storage, utilisation and distribution of explosives for industrial use (three different licences); and
- transportation activities.

These licences are usually issued for a period of five years and in most cases may be extended upon application by the licencee. Licences for carrying out of certain types of geological survey may be issued for a period of 10 years. Licences for the use of natural resources may be issued for shorter or longer periods. Certain types of licences may also have unlimited terms.

The requirements imposed by regulatory authorities may be costly and time-consuming, which may result in delays in the commencement or continuation of exploration or production operations. Accordingly, the licences that the Group needs may not be issued in a timely fashion, or may impose requirements that restrict its ability to conduct its operations or to do so profitably.

As part of the Group's obligations under licensing regulations and the terms of its licences and permits, the Group must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing

In the Russian Federation, mining minerals requires a subsoil licence with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The licensing regime for use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Federal Law of the Russian Federation "On Subsoil" No. 2395-1 dated 21 February 1992, as amended (the "**Subsoil Law**"). The procedure for subsoil use licensing, as well as certain rules of exploration and production of mineral resources was established by Resolution of the Supreme Soviet of the Russian Federation on 15 July 1992, as amended (the "**Licensing Regulation**").

There are two major types of licences: (1) an exploration licence, which is a non-exclusive licence granting the right of geological exploration and assessment within the licence area, and (2) a production licence, which grants the licencee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined licences, which grant the right to explore, assess and produce minerals from the licence area.

There are two major types of payments with respect to the use of subsoil: (1) periodic payments for geological exploration under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence.

Issuance of Subsoil Licences

Subsoil licences are issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations; or (2) tender or auction procedures held in the post-Soviet period. The Subsoil Law and the Licensing Regulation set out the major requirements relating to such tenders and auctions.

Amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Under the 2004 amendments, production licences and combined exploration and production licences are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At the auction, the success of the bid is determined by the attractiveness of the financial proposal.

The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase. In those circumstances, as a matter of practice, the production licence will be issued to the holder of the exploration licence, but, legally, the right of the holder of the exploration licence to receive the production licence in the event of discovery is not guaranteed.

Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone. A recipient of a licence from a regional authority is also usually granted rights to use the land surrounding the licence area.

Extension of Subsoil Licences

The term of any subsoil licence is set forth in the licence and runs from the date the licence is registered. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences may still have a maximum term of five years (except for exploration licences in relation to inland sea waters, territorial sea and continental shelf which may be issued for a period of up to 10 years); production licences may have a one-year term in a limited number of special cases, but are generally granted for a term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licences issued prior to January 2000, but permit licencees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law.

The Subsoil Law permits a subsoil licencee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In order to extend a subsoil licence, a company must file an application with the federal authorities to amend the licence. The Order of the Ministry of Natural Resources No. 439-r dated 31 October 2002 requires that the

following issues be considered by the relevant governmental authorities when determining whether to approve an amendment: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licencee to the federal and local budgets; (2) compliance of the licencee with the conditions of the licence; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended licence.

In practice, the factors that may affect a company's ability to obtain the approval of licence amendments include its compliance with the licence terms and conditions and its management's experience and expertise relating to subsoil issues, including experience in amending licences.

Maintenance and Termination of Subsoil Licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil licence. Prior to the August 2004 amendments, the relevant regional authority, the Ministry of Natural Resources and the licencee were each party to a licence agreement. Under the August 2004 amendments, only the Federal Agency for Subsoil Use and the licencee are parties to licence agreements.

Under a licensing agreement, the licencee makes certain environmental, safety and production commitments, including extracting annually an agreed target amount of reserves; conducting agreed mining and other exploratory and development activities; protecting the environment in the licence areas from damage; providing geological information and data to the local authorities; submitting on a regular basis formal progress reports to regional authorities; making all obligatory payments when due and commitments with respect to social and economic development of the region. When the licence expires, the licencee must return the land to a condition that is adequate for future use. Most of the conditions set out in a licence are based on mandatory rules contained in Russian law, and licence agreements are generally not negotiable. The Group expects that it will be able to meet the commitments set forth in its licensing agreements.

The fulfilment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licencee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licencee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for licence termination. A licencee can be fined or the licence can be limited, suspended or terminated for the reasons noted above, for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A licence may also be limited, suspended or terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for suspension or termination of licences. Consistent underproduction and failure to meet obligations to finance a project would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licencee of any of its obligations may constitute grounds for limiting, suspending or terminating the licence.

If the licencee does not agree with a decision of the licensing authorities, including a decision relating to a licence limitation, suspension or termination or the refusal to reissue an existing licence, the licencee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licencee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Land Use Rights

Land use rights are needed and granted for the portions of the licence area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended (the "**Land Code**"), legal entities may generally have the rights of ownership or lease with regard to land plots in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal bodies, which can sell or lease land to private users.

Legal entities may also have a so-called "**right of perpetual use**" of land plots, provided such type of title was obtained by them prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires legal entities using land plots on the ground of the right of perpetual use to purchase or to lease the respective land plot from the relevant federal, regional or municipal authority by 1 January 2012.

The Group's mining subsidiaries generally have a right of perpetual use or a right of ownership with regard to their plots. By 1 January 2012, the Group's mining subsidiaries using land plots on the ground of the right of perpetual use have to purchase or to lease the pertinent land plots.

Environmental Considerations

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

The Group is compliant with applicable environmental regulations and no material breach has been identified.

Pay-to-Pollute

The Environmental Protection Law establishes a "Pay-to-Pollute" regime administered by federal and local authorities. The Rostekhnadzor has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan to reduce of the emissions or disposals must be developed by the company and approved by the appropriate governmental authority. Fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Environmental Approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law "On Ecological Expert Examination" No. 174-FZ of 23 November 1995, as amended. Conducting operations without state ecological approval, where such approval is required, will result in the negative consequences described in "Environmental Liability" below.

Enforcement Authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Rostekhnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry, the Federal Agency on Water Resources and certain other federal authorities (along with their regional

branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for co-ordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company that fails to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or civil liability, its employees may also be subject to disciplinary liability, while individuals may be subject to either civil liability or criminal liability. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Subsoil licences generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ of 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced and where certain types of mining are done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry) and certain types of activities (e.g., work on a personal computer).

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation effective 1 February 2002, as amended, (the "**Labour Code**"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Rostekhnadzor has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the cause. The

company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostekhnadzor may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Investments in Russian Companies of Strategic Importance

The Federal Law No. 57-FZ "On the Procedure for Making Foreign Investments in the Companies of Strategic Importance for the Defence and Security of the State" dated 29 April 2008, as amended (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; (b) placement, construction, operation and decommissioning of radiation sources; and, generally, (c) activities of those companies that are holding a dominant position in a particular market segment and are entered in a Register of Dominant Entities or Entities with a Market Share Exceeding 35%.

Under the Strategic Investments Law, an acquisition by a foreign investor of direct or indirect control over a Strategic Company requires a permit of the competent state authority. In addition, an acquisition by a foreign investor or its group of companies of the shares (participation interests) in a Strategic Company (directly or indirectly) exceeding certain thresholds (which vary from 5% to 50% of total voting rights in equity capital of the Strategic Company, depending on type of the foreign investor and type of the Strategic Company) requires obtaining a prior permit of the competent state authority. If the acquisition of interest over the relevant threshold happens without the requisite prior permit, the acquisition transaction is void under Russian law and the foreign investor and/or its group of companies may be held deprived from voting rights regarding the equity capital of the Strategic Company.

Competition and Mergers Control

Federal Law No. 135-FZ "On the Protection of Competition" dated 26 July 2006, as amended (the "**Competition Law**"), establishes a merger control regime and requires that the FAS be notified of certain transactions.

Under the Competition Law, an investor or several entities constituting "a group of entities and/or individuals" should apply for the prior consent of the FAS or submit to it a post-completion notification in relation to:

- an initial acquisition of more than 25% of the voting shares in a joint stock company, or more than 33.3% of the participation interest in a limited liability company, provided that the acquirer did not have any shares (participation interest) in such company or had less than the above threshold before the acquisition;
- a subsequent acquisition of the voting shares in a joint stock company or participation interests in a limited liability company such that the level of the holding of the company's shares (participation interest) passes the thresholds of 50% or 75% of the voting shares in a joint stock company or 50% or 66.6% of the participation interests in a limited liability company;
- acquisition or lease of production and/or intangible assets (other than land and non-industrial buildings, constructions, premises and parts thereof or constructions in progress) if the book value of such assets exceeds 20% of the book value of the production and intangible assets of the transferor; or
- an acquisition of rights to determine the terms of conduct of business of a legal entity (e.g. rights to give binding instructions or control the decision making process in such entity).

The FAS' prior consent for an acquisition is required if (i) either the aggregate balance sheet value of the assets of the acquirer and the target and the companies of their respective groups exceeds RUB 7 billion or the aggregate revenues of the same entities in the last calendar year exceeds RUB 10 billion; and (ii) the aggregate

balance sheet value of the assets of the target and the companies of its group exceeds RUB 250 million or, alternatively, one of the entities mentioned above is entered in the Russian Register of Dominant Entities or Entities with a Market Share Exceeding 35%.

A post-completion notification on acquisition is required if (i) either the aggregate balance sheet value of the assets of the acquirer and the target and the companies of their respective groups exceeds RUB 400 million or the aggregate revenues of the same entities in the last calendar year exceeds the same amount; and (ii) the aggregate balance sheet value of assets of the target and the companies of its group exceeds RUB 60 million. Under the Competition Law, a transaction without prior FAS approval may be invalidated by a court resolution held upon the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by strengthening a dominant position in the relevant market.

More generally, Russian law provides for civil, administrative and criminal liability for the breach of anti-monopoly law.

Intra-group transfers are subject to merger control. They may be exempt from the prior approval requirement and may be subject to post-completion notification if:

(i) an intra-group transfer is made to a transferee (a) in which the transferor holds more than 50% of voting shares or (b) which holds more than 50% of voting shares in the transferor; or

(ii) not later than one month prior to completion a list of group members is disclosed to the FAS in accordance with Article 31 of the Competition Law. The list should specify the grounds for including each of the group members in the group. The list submitted to the FAS will be published on the FAS website.

The Competition Law expressly provides for its extraterritorial application to transactions and actions made outside of Russia between Russian and(or) foreign entities if such transactions or actions relate to production and(or) intangible assets located in the territory of Russia or to the shares (participation interests) in, or rights in relation to, companies operating in the territory of Russia, or otherwise impact the competition environment in Russia.

As part of its competition-monitoring activities, the FAS maintains a Register of Dominant Entities or Entities with a Market Share Exceeding 35%. The Company's subsidiaries, OEMK and LGOK, being major Russian steel producers, appear on the Register of Dominant Entities or Entities with a Market Share Exceeding 35%.

The FAS may rule that even certain companies that do not appear on the register have a dominant position in the market. Such companies are subject to more rigorous governmental regulation including the imposition of price controls.

Employment and Labour

Labour matters in the Russian Federation are primarily governed by the Labour Code.

Employment Contracts

As a general rule, employment contracts are concluded with employees for an indefinite term. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

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

- liquidation of the company or staff redundancy;
- failure of the employee to comply with the job position's requirements due to incompetence, as confirmed by the results of appraisal;
- systematic failure of the employee to fulfil his or her duties without a fair excuse if this employee was subject to prior disciplinary action and if a warning or reprimand imposed on the employee has not been withdrawn by the employer;

- any single gross violation by the employee of his or her duties as it is defined in the Labour Code; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

Specific selection criteria of employees to be dismissed due to staff redundancy and notification requirements are established by the Labour Code. An employee dismissed from a company due to staff redundancy or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, average salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of a company, an employer cannot dismiss the employees, being on a sick-leave, business trip or on a holiday and expectant mothers. Mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother may not be dismissed by the employer unless for guilty actions. Dismissal of minors, except for dismissal due to liquidation of a company, requires prior approval by the State Labour Inspectorate or by the respective Minor Inspectorate.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid average salary for the period between the wrongful termination and reinstatement, as well as for moral suffering.

Work Time, Annual Leave and Retirement

The Labour Code generally sets the regular working hours at 40 hours per week. Any time worked beyond 40 hours per week, if the employee is not working under irregular working hours regime, must be compensated at a higher rate. Work on public holidays and weekends must also be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively.

Salary

The minimum salary in the Russian Federation, as established by federal law, is calculated on a monthly basis and is RUB 4,611 from 1 June 2011. Constituent entities of the Russian Federation are entitled to adopt local minimum salary that shall not be less than general. The minimal salary level may also be adopted by collective bargaining agreements and collective agreements. Although the law requires that the minimum salary be at or above a minimum subsistence level, the current minimum salary is generally considered to be less than a minimum subsistence level. Salary is to be paid on a bi-weekly basis on the dates specified by the employer's internal labour regulations.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for strikes to be qualified as legal. Participation in a legal strike may not be considered by an employer as a ground for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike after the court decision on the illegality of the strike has been delivered to the employees' representative body may be adequate grounds for discipline actions against the employee, including dismissal.

Trade Unions

Trade unions in Russia still retain significant influence over employees of large industrial companies and, as such, may affect the company's operations in the Russian Federation. In this regard, the Group's management routinely interacts with trade unions in particular the Mining and Metallurgical Trade Union, in order to ensure the appropriate treatment of employees and the stability of its business. See "Business—Employees and Industrial Relations".

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity No. 10-FZ of 12 January 1996, as amended (the "**Trade Union Law**"). Other applicable legal acts include the Labour Code, which provides for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout the Russian Federation, are also permitted.

As part of their activities, trade unions may:

- negotiate collective bargaining agreements and collective agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies co-operate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consideration of reasoned opinion of the management of the trade union and, in certain circumstances, the consideration of reasoned opinion of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal at the employer's initiative due to some dismissal grounds for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

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

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a

reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration. The procedure of collective labour dispute is provided by the Labour Code. The collective labour dispute shall be provided in full compliance with the procedure.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability.

Collective Bargaining Agreements

The Labour Code provides that a collective bargaining agreement applies to all employees of the company whether members or non-members of the trade union. A collective bargaining agreement may be concluded either for the company on the whole, or for its branches, representative offices and other structural subdivisions. A collective bargaining agreement may be concluded for a term not exceeding three years and may be extended for another three years. It is not possible to include in the collective bargaining agreement a provision worsening the employees' standing under the general rule of law, as such provisions would be null and void.

Trade Barriers and Anti-Dumping Regulations

Steel-producing countries generally view their steel industries as strategically important and therefore requiring protection from foreign competition. In addition, the governments of some emerging economies employ non-market methods to try to protect and develop their steel industries, and, while those governments seek to achieve the desired balance in their economies between production levels and product mix and consumption, they may resort to protectionist measures against imports from third countries.

Exports of steel from the Russian Federation are primarily regulated by the Federal Law "**On Fundamentals of State Regulation of Foreign Trade Activities**" No. 164-FZ dated 8 December 2003 and bilateral agreements between the Russian Federation and its trading partners, including the United States, the European Union and China, which establish minimum prices and/or quotas for the export from the Russian Federation to those markets of certain types of steel products. Russian exporters of steel products to the United States and the European Union are required, in accordance with the bilateral agreements between the Russian Federation and the United States and the European Union, respectively, to obtain a licence for those exports from the Ministry of Industry and Trade.

General

In general, the recent trend worldwide has been for the relaxation of import restrictions. The largest importers of the Group's products are countries in the European Union and North America. Restrictive measures on imported steel introduced by certain Latin American countries have not affected the Group's business adversely, as the Group's exports have, for geographical reasons, been principally directed at markets in the European Union and North America.

The Group believes that, due to the Russian Federation being granted "market economy" status by the European Union and various countries, including the United States, South Africa and Brazil, it has become relatively easier for Russian steel producers to defend their interests in the course of anti-dumping and other trade proceedings, and the Group expects this trend to continue if the Russian Federation accedes to the WTO in the near future.

United States

On 6 March 2002, the United States introduced safeguard measures in respect of steel imports, which resulted in the imposition of additional import duties (ranging from 8% to 30%) on steel products imported into the United States and restricted the import into the United States of most high value-added products, including those imported from the Russian Federation. These U.S. measures resulted in a "domino" effect of similar safeguard measures in other regions, including the European Union, Czech Republic, Brazil, Canada, Mexico, Venezuela, Chile, Colombia, Argentina, Thailand, India, Iran and China, each of which introduced measures to protect their own markets from "excessive" steel unable to enter the U.S. market and led to a substantial decrease in sales to the United States by Russian steel producers during 2002 and 2003. On 5 December 2003, the United States revoked its 2002 safeguard measures.

As a result, Russian steel producers, including OEMK and Ural Steel are currently able to operate in this market in accordance with the following two agreements, which limit Russian exports of metal products:

- suspension agreement on hot-rolled cut-to-length steel plate, which establishes minimum prices without quotas based on information about the costs and expenses of Russian exporters. Russian exporters concluded this market economy cost-based agreement with the U.S. Department of Commerce on 20 December 2002, replacing the non-market economy agreement that had been in force since 1997. OEMK and Ural Steel are the only exporters from the Russian Federation who are able to satisfy U.S. Department of Commerce requirements and who sell hot-rolled cut-to-length steel plate into the U.S. market;
- a suspension agreement on hot-rolled flat carbon-steel products, which established minimum prices and quotas. While these quotas have generally been enough to satisfy Russian producers' needs, the Group is restricted on sales of hot-rolled coils and thin sheets in the U.S. market;
- In relation to steel products such as cold-rolled, galvanised and semi-finished steel and long products, Russian exporters have been operating in the U.S. market without any restrictions on the import of these products since the expiry of the Comprehensive Steel Agreement on 11 July 2004; and
- The Russian Federation was granted "market economy" status by the United States with effect from 1 April 2002.

European Union

On 26 October 2007, the Russian Federation and the European Union entered into an agreement regulating trade in certain steel products. This agreement established a quota for the export of Russian metals into the European Union and superseded the previous quota system for the export of Russian metals, which had been in place since 1 December 1997 in the form of a bilateral agreement. This agreement and these quotas are referred to in a regulation issued by the European Council on 22 October 2007 on import of certain steel products from the Russian Federation and Commission Regulation (EC) No. 1093/2009 on 13 November 2009 amending this Regulation.

The following table sets forth quotas for exports of Russian Steel into the European Union in 2008, 2009 and 2010.

Products	Year ended 2008 (tonnes)	Year ended 2009 (tonnes)	Year ended 2010 (tonnes)
SA. Flat products			
SA1. Coils	1,035,000	1,067,575	1,087,397
SA2. Heavy plate	275,000	303,498	288,922
SA3. Other flat products	595,000	651,248	625,122
SA4. Alloyed products	105,000	114,925	110,316
SA5. Alloyed quarto plates	25,000	27,580	26,266
SA6. Alloyed cold-rolled and coated sheets	110,000	120,425	115,569
SB. Long products			
SB1. Beams	55,000	60,480	57,784
SB2. Wire rod	324,000	355,131	340,402
SB3. Other long products	507,000	593,795	532,667
Total	**3,031,000**	**3,215,403**	**3,184,445**

On 31 October 2003, the European Union terminated its anti-dumping investigation against imports of hollow sections originating from the Russian Federation and Turkey, without the imposition of any trade restrictions.

The Russian Federation was granted "**market economy**" status by the European Union in November 2002.

Anti-Dumping Proceedings

The most significant anti-dumping proceedings against Russian steel exporters were initiated between 1996 and 2001 by the United States in respect of a wide range of hot-rolled and cold-rolled steel products. The Company

actively participated, along with other Russian steel producers, in all those proceedings. In general, the granting of "market economy" status to the Russian Federation by the United States in April 2002 has led to a reduction in the anti-dumping measures imposed in the U.S. market, benefiting, in particular, the ferrous metal industries. For example, the United States terminated the anti-dumping proceedings against imports of cold-rolled steel products, which it initiated on 21 June 1999 and 18 October 2001, and, since April 2002, the Group has incurred lower rates of duty in anti-dumping proceedings compared to rates from previous periods, for example, the 184% anti-dumping duty for Russian hot-rolled steel that the United States imposed in 1999. During 2004 and 2005, the Group participated in the sunset review of anti-dumping duty measures against Russian hot-rolled steel in the United States. Following this review, the United States decided on 14 April 2005 to retain these measures.

In 2004 and 2005, the following key decisions were made regarding Russian steel exporters by foreign government authorities:

- Expiration of the U.S.-Russia Comprehensive Steel Agreement, which established quotas on various types of steel products such as cold-rolled, galvanised and semi-finished steel and long products, on 14 July 2004. Since that time, the Russian Steel Division and other Russian exporters have operated in the U.S. market without any restrictions on these products.
- Termination of anti-dumping measures against hot-rolled and cold-rolled products in Canada.
- Termination of anti-dumping measures against electrical steel products in China.
- Suspension of anti-dumping measures against cold-rolled steel products in China.
- Termination of anti-dumping measures against cold-rolled steel products in South Africa, hot-rolled products in Indonesia and cold-rolled and long steel products in Colombia.
- Opening of U.S. cut-to-length market through the establishment of minimum prices by the U.S. Department of Commerce, as the result of co-operation between the Department and the Group.
- Possibility of the export of new grades of hot-rolled products within the framework of the U.S.-Russia Suspension Agreement on hot-rolled flat carbon-steel products.

Currently, there are relatively few trade restrictions in force against exports from the Russian Federation in countries such as Venezuela, Colombia, Mexico, Argentina, Peru, Thailand and South Africa. These restrictions did not have and are not expected to have a material effect on the Group's business.

Meanwhile, a number of anti-dumping duty measures against Russian steel products expired after being in force for five years, including measures relating to grain-oriented electrical steel in China and cold-rolled steel in Colombia.

The Company, along with other Russian steel producers, continues to participate in those proceedings and reviews that it regards as important to its business. The Company intends to continue to participate actively in all inter-governmental consultations relating to Russian steel exports to the United States, the European Union and other international markets.

DESCRIPTION OF THE ISSUER AND GUARANTORS

ISSUER

Metalloinvest Finance Limited was incorporated in Ireland on 27 May 2011, with registered number 499280 as a private company with limited liability under the Companies Acts 1963 – 2009 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 53 Merrion Square, Dublin 2, Ireland and its telephone number + 353 1 614 6240.

Share Capital and Ownership

The authorized share capital of the Issuer is EUR 1,000,000 divided into 1,000,000 ordinary shares of par value EUR 1.00 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held by Metalloinvest Holding (Cyprus) Limited, a Cypriot-incorporated company.

The Issuer is a wholly owned subsidiary of Metalloinvest Holding (Cyprus) Limited, which is a wholly owned subsidiary of the Parent.

Pursuant to the Articles of Association of the Issuer, the Board of Directors of the Issuer is responsible for the Issuer's management. Under Irish law, for as long as the Issuer is solvent the Board of Directors is required to act in the best interests of the Issuer.

The relationship between the Issuer and Metalloinvest Holding (Cyprus) Limited, the sole shareholder of the Issuer, is governed by the memorandum and articles of association of the Issuer and Irish law, including the Companies Acts and regulations made thereunder.

TMF Administration Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 19 July 2011 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement.

In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least two months written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is 53 Merrion Square, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to Group companies. Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors. The Directors of the Issuer and their business addresses are as follows:

- Jacqueline O'Rourke, 53 Merrion Square, Dublin 2, Ireland
- Kieran Desmond, 53 Merrion Square, Dublin 2, Ireland.

The Issuer's Company Secretary is TMF Administration Services Limited. The Directors of the Issuer's Company Secretary and their business addresses are as follows:

- Dermot Clarke, 53 Merrion Square, Dublin 2, Ireland
- Kieran Desmond, 53 Merrion Square, Dublin 2, Ireland
- Ronan Reilly, 53 Merrion Square, Dublin 2, Ireland.

The Directors of the Issuer do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorships of Jacqueline O'Rourke and Kieran Desmond are provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the Issuer's Board of Directors or the Company Secretary's Board of Directors and the duties of the members of the Issuer's Board of Directors or the Company Secretary's Board of Directors to the Issuer.

Save for the issues of Notes described above and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of the Prospectus. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2011. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection

The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer.

The auditors of the Issuer are PricewaterhouseCoopers of 1 Spencer Dock, North Wall Quay, Dublin 1, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

GUARANTORS

Management

To achieve better integrated control over the activities of the Group's operating facilities, in 2006 the Group established a centralised management company, Metalloinvest Management Company. The Board of Directors of Metalloinvest Management Company renders the key strategic decisions of the Group.

None of the Parent, LGOK nor OEMK has established a board of directors, as permitted under Russian law. As such, in accordance with Russian law, Metalloinvest Management Company exercises the managing powers of the sole executive body of each of the Guarantors (except the Parent), including acting on behalf of LGOK as a shareholder of MGOK.

Mr Andrey Varichev, who is also a member of the Board of Directors of Metalloinvest Management Company, serves as the sole General Director of the Parent, exercising the managing powers of the sole executive body of the Parent, including acting on behalf of the Parent as a shareholder of LGOK and OEMK.

The Parent

The Parent was incorporated on 8 November 2000, under the laws of Russia and domiciled in Moscow in the form of closed joint stock company with the initial name CJSC "**Gazmetall**". On 28 March 2008 the Parent was renamed CJSC "**Holding Company Metalloinvest**" and on 4 June 2008 it was reorganised as an open joint stock company named Joint Stock Company Holding Company Metalloinvest or JSC HC Metalloinvest. Its duration is indefinite. The Parent's charter states that its main aim is to generate profits.

The Parent's registration number is 1027700006289 and its registered address is Lesnaya Street, 3, 125047 Moscow, Russia. The telephone number of the Parent's Moscow office is +7 (495) 981 55 55. No information posted on any website, including the Parent's website, constitutes a part of this Prospectus.

Mr Andrey Varichev is the sole General Director of the Parent and acts as the Parent's sole executive body. Details of Mr Varichev's business address, functions and principal activities performed outside the Group are located in "Management and Board of Directors" on page 186.

There are no current or potential conflicts between the private interests and duties of Mr Varichev and his duties to the Parent.

LGOK

LGOK was incorporated on 2 November 1992 as a joint-stock company in accordance with the Decree of the President of the Russian Federation No. 721 dated 1 July 1992 "On organisational measures for transformation of state enterprises into joint-stock companies". LGOK is registered in the Russian Federation with the Unified State Register of Legal Entities under number 1023102257914. LGOK's registered address is Gubkin 11, Belgorod region, 309191, Russia and its telephone number is +7 (47241) 94455.

LGOK is a wholly-owned subsidiary of the Parent.

The articles of association of LGOK do not mention any specific purposes of its establishment (and state generally that the purpose of LGOK is to generate profits). The articles explicitly mention that LGOK may (among other matters):

- extract and beneficiate iron ore;
- produce other types of products on the basis of complex use of mineral raw materials;
- produce other types of production and technical products; and
- carry out any other types of activities that are not prohibited by law.

LGOK to date has primarily engaged in the extraction of iron ore.

LGOK has not established a board of directors. In the absence of a board of directors, the principal supervisory body of LGOK is its sole shareholder, which is the Parent. As noted above, Mr Andrey Varichev acts on behalf of the Parent as a shareholder of LGOK. There are no current or potential conflicts of interest between the private interests and duties of Mr Varichev and his duties to LGOK.

As described in "—Guarantors—Management" above, LGOK has transferred the powers of its sole executive body (the principal administrative and management body of the company) to Metalloinvest Management Company, whose Board of Directors accordingly acts in that capacity for LGOK. Details of the members of the Board of Directors of Metalloinvest Management Company are included in "Management and Board of Directors" beginning on page 185.

Save for Mr Ardavan Farhad Moshiri's beneficial interest in the Parent, as described in "Management and Board of Directors—Interests of Management" on page 188, there are no current or potential conflicts of interest between the private interests and duties of the members of the Board of Directors of Metalloinvest Management Company and the duties of the members of the Board of Directors of Metalloinvest Management Company to LGOK.

OEMK

OEMK was incorporated on 29 April 1993 as a joint-stock company in accordance with the Decree of the President of the Russian Federation No. 1230 dated 14 October 1992 "On regulation of lease relationships and

privatisation of leased state and municipal property". OEMK is registered in the Russian Federation with the Unified State Register of Legal Entities under number 1023102358620. OEMK's registered address is Stary Oskol city, Belgorod region, 309515, Russia and its telephone number is +7 (4725) 37 27 07.

OEMK is a wholly-owned subsidiary of the Parent.

The articles of association of OEMK do not mention any specific purposes of its establishment (and state generally that the purpose of OEMK is to generate profits). The articles explicitly mention that OEMK may (among other matters):

- produce different type of steel products;
- carry out construction activities;
- carry out wholesale trade activities; and
- carry out any other types of activities that are not prohibited by law.

OEMK has to date primarily engaged in the production of crude steel.

OEMK has not established a board of directors. In the absence of a board of directors, the principal supervisory body of OEMK is its sole shareholder, which is the Parent. As noted above, Mr Andrey Varichev acts on behalf of the Parent as a shareholder of OEMK. There are no current or potential conflicts of interest between the private interests and duties of Mr Varichev and his duties to OEMK.

As described in "—Guarantors—Management" above, OEMK has transferred the powers of its sole executive body (the principal administrative and management body of the company) to Metalloinvest Management Company, whose Board of Directors accordingly acts in that capacity for OEMK. Details of the members of the Board of Directors of Metalloinvest Management Company are included in "Management and Board of Directors" beginning on page 185.

Save for Mr Ardavan Farhad Moshiri's beneficial interest in the Parent, as described in "Management and Board of Directors—Interests of Management" on page 188, there are no current or potential conflicts of interest between the private interests and duties of the members of the Board of Directors of Metalloinvest Management Company and the duties of the members of the Board of Directors of Metalloinvest Management Company to OEMK.

ADDITIONAL GUARANTOR

MGOK

MGOK is not as at the date of this Prospectus a Guarantor of the Notes. The Parent has undertaken to procure that MGOK shall provide an unconditional and irrevocable guarantee of the Notes within 50 days of the Issue Date.

MGOK was incorporated on 24 July 1996 as a joint-stock company in accordance with the Decree of the President of the Russian Federation No. 721 dated 1 July 1992 "On organisational measures for transformation of state enterprises into joint-stock companies". MGOK is registered in the Russian Federation with the Unified State Register of Legal Entities under number 1024601215088. MGOK's registered address is 21, Lenin street, Zheleznogorsk, Kursk region, 307170, Russia, and its telephone number is +7 (47148) 94105.

The Parent indirectly controls 97.7% of MGOK's share capital. MGOK holds 100% of the share capital of each of MIL LLC, UralSteel and S.Z. Region Oil.

MGOK's articles of association do not mention any specific purposes of its establishment (and state generally that the purpose of MGOK is to generate profits). The articles explicitly mention that MGOK may (among other matters):

- extract and beneficiate iron ore;
- produce other types of products on the basis of complex use of mineral raw materials;
- produce other types of production and technical products;
- carry out foreign trade activities; and
- carry out any other types of activities that are not prohibited by law.

MGOK to date has primarily engaged in the production of iron ore.

The Board of Directors of MGOK and their business addresses are as follows:

- Mr Andrey Varichev, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Sergey Kretov, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Pavel Mitrofanov, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Yuriy Nadeev, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Eduard Potapov, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Andrey Prosyanik, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Dmitry Tarasov, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Andrey Ugarov, Lesnaya street 3, 125047 Moscow, the Russian Federation
- Mr Sergey Shuvalov, Lesnaya street 3, 125047 Moscow, the Russian Federation

There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the MGOK's Board of Directors and the duties of the members of MGOK's Board of Directors to MGOK.

MGOK has transferred the powers of its sole executive body (the principal administrative and management body of the company) to the Metalloinvest Management Company, whose Board of Directors accordingly acts in that capacity for MGOK. Details of the Board of Directors of Metalloinvest Management Company are included in "Management and Board of Directors".

Save for Mr Ardavan Farhad Moshiri's beneficial interest in the Parent, as described in "Management and Board of Directors—Interests of Management" on page 188, there are no current or potential conflicts of interest between the private interests and duties of the Board of Directors of Metalloinvest Management Company and the duties of the members of the Board of Directors of Metalloinvest Management Company to MGOK.

PRINCIPAL SHAREHOLDERS

The principal beneficial shareholders of the Parent are Mr Alisher Usmanov, Mr Vladimir Skoch, Mr Vasily Anisimov and Mr Ardavan Farhad Moshiri, who together indirectly control 100% of the Parent's share capital. The following table sets forth information regarding their ownership as at the date hereof.

Principal beneficial shareholder	Indirect holding of Parent's shares, %
Mr Alisher Usmanov	45
Mr Vladimir Skoch	30
Mr Vasily Anisimov	20
Mr Ardavan Farhad Moshiri	5
Total	**100**

The following table sets forth information regarding the ownership of the Parent according to the Parent's share register as at the date hereof.

Shareholder	Percentage of Parent's shares
Gallagher Holdings Limited(1)	50
Seropaem Holdings Limited(2)	30
Coalco Metals Limited(3)	20
Total	**100**

(1) The beneficial owners of Gallagher Holdings Limited are Mr Alisher Usmanov and Mr Ardavan Farhad Moshiri, who hold 90% and 10% interests in its charter capital, respectively.

(2) Seropaem Holdings Limited is wholly beneficially owned by Mr Vladimir Skoch.

(3) Coalco Metals Limited is wholly beneficially owned by Mr Vasily Anisimov.

MATERIAL CONTRACTS AND RELATED PARTY TRANSACTIONS

Material Contracts

Management believes that the Group has not entered into any material contracts (defined as contracts entered into outside the ordinary course of business) for the three years ended 31 December 2010 and the period to the date of the Prospectus, other than the Subscription Agreement and Subscription Support Agreement referred to in "Subscription and Sale" and the Trust Deed, Agency Agreement, Agency Support Agreement and Deed of Guarantee referred to in "Terms and Conditions of the Notes". Management further believes that none of the members of the Group had any material contracts during the three years prior to the date of the Prospectus.

Related Party Transactions

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party, is under common control with, or can exercise significant influence over the other party in making financial or operational decisions as defined in IAS 24, Related Party Disclosures.

The following is a summary of the Group's most significant transactions with related parties for the three years ended 31 December 2010 and the period to the date of the Prospectus. The Group is required to report all related party transactions in accordance with IFRS. The Company has had no significant related party transactions during the period from 1 January 2008 to the date of this document, other than the transactions described below and in Note 9 of the Interim Financial Statements, Note 28 to the 2010 Financial Statements and Note 29 to the 2009 Financial Statements.

Acquisitions

The Group expects to enter into an agreement with a related party to acquire the controlling stakes in the companies "LebGOK-DSF" and "Dorstroymaterialy" for a total consideration of approximately U.S.$200 million. The companies own and operate the rock waste processing facilities and produce more than 4 million tonnes of crushed stones, widely used for road construction, from the LGOK rock overburden.

In March 2011 the Group entered into an agreement with a related party giving the Group the right to acquire 75,240,247 ADRs representing approximately 4.0 per cent interest in OJSC "MMC "Norilsk Nickel" for U.S.$2,200 million. The Group recognised a written call option which can be exercised from 23 March 2011 to 30 September 2011. The market value of the ADRs as at 31 March 2011 was U.S.$1,989 million or RUB 56,555 million. The Group recognised the fair value of the outstanding call option as an asset of RUB 2,324 million. In May and June 2011 the Group exercised the option and acquired 75,240,247 ADRs for U.S.$2,200 million or RUB 60,401 million. The market value of the ADRs at the dates of acquisition amounted to RUB 53,242 million. The purchase price of the ADRs exceeded market value at the date of acquisition by RUB 7,159 million.

In October 2008 the Group acquired listed equity securities for a total consideration of U.S.$650 million (or RUB 16,932 million at the date of acquisition) from the Parent's shareholder (U.S.$400 million or RUB 10,416 million) and other related parties (U.S.$250 million or RUB 6,516 million). The acquired securities were classified as available for sale financial assets (see note 10 to the 2009 Financial Statements). In November 2008, the securities were sold to another related party for U.S.$650 million. No gain or loss was recognised as a result of these transactions. The differences between the fair values at acquisition and disposal dates and the respective transaction prices of the securities were recognised in equity as transactions with owners. On acquisition, the consideration for the securities was paid in cash. On disposal, the transaction was settled by U.S. dollar-denominated promissory notes issued by the purchaser. In November – December 2008, the Group assigned the promissory notes received as follows: U.S.$300 million was used to settle a loan payable to another related party; U.S.$350 million was converted into a U.S. dollar-denominated loan to the purchaser. The loan was to mature in November 2011 and bore interest of 10.25%. The loan was fully repaid ahead of schedule in February 2009 by rouble-denominated promissory notes.

In August 2008, the Group acquired a 100% interest in Ferrous Metal Company Limited, an iron ore steel products trader registered in Gibraltar, from its shareholder and related parties, for cash consideration of RUB 17,584 million. Management commissioned an independent assessment of the fair values of the assets and

liabilities acquired. The acquired business contributed revenues of RUB 36,959 million and net loss of RUB 642 million to the Group for the period from the acquisition to 31 December 2008. The net loss from the acquired business reflects the deteriorating economic situation in the metals industry in the fourth quarter of 2008. The goodwill was primarily attributable to the margin of the trading company, which will now accrue to the Group.

Loans Advanced to Related Parties

At 31 March 2011, the balance of loans advanced by the Group to related parties was RUB 7,778 million (31 December 2010: RUB 5,760 million; 2009: RUB 8,880 million; 2008: RUB 29,841 million).

Guarantees Received

At 31 March 2011, long-term borrowings and short-term borrowings of RUB 768 million and RUB 52 million, respectively, were guaranteed by related parties (31 December 2010: nil; 2009: long-term borrowings of RUB 9,073 million; 2008: short-term borrowings of RUB 8,500 million).

Guarantees of Related Party Obligations

At 31 March 2011, the Group's guarantees against obligations of other related parties amounted to RUB 6,311 million (31 December 2010: RUB 6,322 million; 2009: RUB 4,497 million; 2008: RUB 29,302 million).

Operating Lease

In August 2008, the Group entered into a rent agreement with other related parties to lease office premises for 10 years. The total lease payments for the 10-year period amount to RUB 9,849 million. During the three months ended 31 March 2011 lease charges amounted to RUB 264 million (the three months ended 31 March 2010: RUB 266 million). In 2010, lease charges amounted to RUB 1,065 million (2009: RUB 979 million; 2008: RUB 434 million).

MANAGEMENT AND BOARD OF DIRECTORS

Management

To achieve better integrated control over the activities of the Group's operating facilities, in 2006 the Group established a centralised management company, Metalloinvest Management Company.

The Board of Directors of Metalloinvest Management Company renders the key strategic decisions of the Group. None of the Parent, LGOK nor OEMK has established a board of directors, as permitted under Russian law. As such, in accordance with Russian law, Metalloinvest Management Company exercises the managing powers of the sole executive body of each of the Guarantors (except the Parent), including acting on behalf of LGOK as a shareholder of MGOK.

Mr Andrey Varichev, who is also a member of the Board of Directors of Metalloinvest Management Company, serves as the sole General Director of the Parent, exercising the managing powers of the sole executive body of the Parent.

Board of Directors

Metalloinvest Management Company's Board of Directors currently consists of 12 members. Three members of the Metalloinvest Management Company's Board of Directors are independent directors.

The table below shows the current members of Metalloinvest Management Company's Board of Directors. All of the current directors of the Metalloinvest Management Company were elected on 29 April 2011 and their terms expire on the date of the Parent's next annual shareholders' meeting expected to be held on or about 29 April 2012. The address of the Board of Directors is Rublevskoe Avenue 28, 121609, Moscow, Russian Federation.

Name	Year of Birth	Position
Mr Ardavan Farhad Moshiri	1955	Chairman of the Board of Directors, Metalloinvest Management Company
Mr Kirill Aladyshev	1975	Member of the Board of Directors, Metalloinvest Management Company, independent member of the Board
Mr Andrey Varichev	1967	Member of the Board of Directors, Metalloinvest Management Company, General Director Metalloinvest Holding Company
Mr Nikolai Krylov	1958	Member of the Board of Directors, Metalloinvest Management Company, independent member of the Board
Mr Pavel Mitrofanov	1981	Member of the Board of Directors, Metalloinvest Management Company, Deputy General Director-Financial Director, Metalloinvest Management Company
Mr Andrey Musatov	1967	Member of the Board of Directors, Metalloinvest Management Company, independent member of the Board
Mr Yuriy Nadeev	1968	Deputy General Director for Security, Member of the Board of Directors, Metalloinvest Management Company
Mr Eduard Potapov	1978	Member of the Board of Directors, Metalloinvest Management Company, General Director of Metalloinvest Management Company
Mr Andrey Prosyanik	1965	Member of the Board of Directors, Metalloinvest Management Company, First Deputy General Director—Commercial Director, Metalloinvest Management Company
Mr Andrey Ugarov	1961	Member of the Board of Directors, Metalloinvest Management Company, First Deputy General Director—Director for Production, Metalloinvest Management Company
Mr Nazim Efendiev	1963	Member of the Board of Directors, Metalloinvest Management Company, Managing Director JSC "Ural Steel"
Mr Sergey Shuvalov	1968	Member of the Board of Directors, Metalloinvest Management Company, Deputy General Director for corporate legal affairs of the Parent

Mr Ardavan Moshiri has been Chairman of the Board of Directors of Metalloinvest Management Company since 2006. He served as Executive Director of GNE Group plc. (1993-2006) and was a Chief Executive Officer of Europe Steel Limited (formerly Europe Steel plc) from 2000 to 2008. Prior to that Mr Moshiri worked for Ernst & Young (1979-1985), Pannell Kerr Forster (1985-1987) and Deloitte & Touche (1987-1992). Mr Moshiri holds a BSc (hons) degree in Economics and Statistics from the University of London and is a chartered certified accountant. Mr Moshiri was on the Board of Nautilus Minerals Inc. (2007-2009), Mail.Ru Group Limited (2010-2011) and MMC Norilsk Nickel (2008-2010). He is currently on the Board of the following companies:

Entity	Position
Gallagher Holdings Limited, Cyprus	Chairman of the Board
Epion Holdings Limited, BVI	Member of the Board
MMC Norilsk Nickel, Russia	Member of the Board (independent director)
OJSC MegaFon, Russia	Member of the Board

Mr Kirill Aladyshev has been a member of the Board of Directors of Metalloinvest Management Company since 11 August 2009. Prior to joining the Board of Directors of Metalloinvest Management Company, he was an expert and later department head at Dialog-Optim Bank and served in a number of capacities at VTB Group. Mr Aladyshev graduated with honours from Moscow Academy of Management with a degree in management. His outside activities include acting in various capacities for the VTB Group: he serves as an advisor in the Problem Loans Collection Department of the JSC Vneshtorgbank, advisor to Vice President of the JSC Vneshtorgbank and financial director & CFO of OJSC "VTB-Leasing". Mr. Aladyshev also holds the position of the Vice-president of JSC "Bank of Moscow".

Mr Aladyshev is an independent member of the Board of Directors of Metalloinvest Management Company.

Mr Andrey Varichev has served as the General Director of Metalloinvest Holding Company since 4 June 2009. Prior to that, he served as General Director of Metalloinvest Management Company from February 2009 to June 2009 and as Commercial Director of Management Company Metalloinvest from 2006 to 2008 after holding the position of General Director of MGOK. Between 2001 and 2005, Mr Varichev held different positions in Ural Steel including the position of Deputy General Director on Commercial Matters. Mr Varichev graduated from the Moscow Institute of Aviation Technology in 1991. Mr Varichev's outside activities include:

Entity	Position
OJSC "MMZ"	Vice Chairman of the Board
LLC "Baikal Mining Company"	General Director
MGOK	Chairman of the Board of Directors

Mr Pavel Mitrofanov has served as Deputy General Director-Financial Director of Metalloinvest Management Company since 14 April 2010. Since 2004, Mr Mitrofanov has held various positions in Metalloinvest. He served as Deputy General Director responsible for Strategy and Development of Metalloinvest Holding Company (2008-2009) and Investment and Strategy Director of Management Company Metalloinvest LLC (2009-2010). Mr Mitrofanov graduated from the Faculty of Economics of Moscow State University in 2001, obtained a Masters degree in Financial Accounting, Analysis & Auditing in 2002 and holds an MBA from The Business School of Imperial College London. Mr Mitrofanov is also a member of Board of Directors of MGOK. Mr Mitrofanov currently has no outside activities.

Mr Andrey Musatov has served as a member of the Board of Directors of Metalloinvest Management Company since 11 August 2009. He graduated from Moscow State Institute of International Relations ("**MGIMO**") in 1989, specialising in International Economic Relations. His outside activities include:

Entity	Position
TITAN-R, LLC	Head of External Economic Relations Department
AMRO INTERSERVICE, LLC	CEO
Vneshtorgbank, JSC	Advisor in Troubled Loans Department
GUTA-BANK	Deputy Chairman of the Board of Directors, Vice-president and Deputy Chairman of the board CJSC Loan Office
Interbank Trading House	CEO
Bank of Moscow	Vice President
URENGOY Gas Company	Chairman of the Board of Directors
JSC "Bank of Moscow"	Vice-president

Mr Musatov is an independent member of the Board of Directors of Metalloinvest Management Company.

Mr Yuriy Nadeev has served as Deputy General Director for Security since March 2010 and as Member of the Board of Directors of Metalloinvest Management Company since April 2010. He graduated from Moscow Institute of Law in 2000 and obtained a Master of Laws degree at A.S. Griboedov Institute of International Law and Economics in 2005. He joined Metalloinvest Management Company on 2 December 2009 as Director of the security department, after serving in the Ministry of the Interior of Russian Federation. Mr Nadeev currently has no outside activities.

Mr Eduard Potapov has served as a General Director of Metalloinvest Management Company since 19 March 2010 after serving as the Chief Financial Officer between 2008 and 2010, and as Deputy General Director for Strategy and M&A for Metalloinvest Holding Company between 2007 and 2008. He joined the Group in April 2005 after working as a Senior Audit Consultant for PwC between 2001 and 2005. Mr Potapov graduated with honours from Moscow University of Consumer Cooperatives and is a qualified chartered accountant (ACCA). Mr Potapov's outside activities include serving as a member of the board of LLC "FERROBANK", Russia; Mr Potapov is also a member of the Board of Directors of MGOK.

Mr Andrey Prosyanik has served as the First Deputy General Director—Commercial Director of Metalloinvest Management Company since April 2011. Between February 2008 and September 2010, Mr Prosyanik was acting Commercial Director of Metalloinvest Management Company and between September 2010 and April 2011, he held the position of Deputy of General Director—Commercial Director of Metalloinvest Management Company. Prior to his appointment as General Director of Metalloinvest-Steel in 2007, Mr Prosyanik held a number of positions in the Group and worked as a Commercial Director at Ural Steel between 2003 and 2006. He graduated from Chelyabinsk Technical University in 1988. Mr Prosyanik is also a member of the Board of Directors of MGOK. Mr Prosyanik currently has no outside activities.

Mr Sergey Shuvalov has served as Deputy General Director for Corporate Legal affairs at Metalloinvest Management Company since 16 April 2008, after serving as Director of the Legal Department between 2006 and 2008. Mr Shuvalov previously held the position of Head of the Legal Department of LGOK between 2001 and 2003 and the position of Head of the Legal Department of LLC Gazmetallproekt between 2003 and 2006. He graduated from the Moscow State Institute of International Relations (University) in 1996. Mr Shuvalov is a member of the Board of Directors of MGOK.

Mr Andrey Ugarov graduated from Lipetsk Polytechnic Institute. Mr Ugarov has served as Deputy General Director of commerce for OEMK between 1999 and 2001. At the end of 2001 Mr Ugarov was appointed First Deputy General Director of OEMK and at the beginning of 2002 he was made Executive Director of OEMK. In 2004 Mr Ugarov was appointed Managing Director of OEMK. Mr Ugarov has held the position of First Deputy General Director—Production Director of Metalloinvest Management Company since April 2011.

Mr Nazim Efendiev graduated from the Military Institute of Foreign Languages in 1985 and received an MBA from the Academy of National Economy in 1995. Mr Efendiev served in the army between 1985 and 1992 and from 1996, worked as Deputy of Commerce Director of "Siberian Aluminum". Between 2001 and 2004,

Mr Efendiev was Sales Director in JSC "NOSTA" and JSC "Ural Steel", and between 2004 and 2006, he held the position of General Director of JSC "Ural Steel". Prior to being appointed chairman of the Board of Directors of JSC "Engineering Corporation "Uralmash" in 2009, Mr Efendiev occupied the position of General Director of JSC "Engineering Corporation "Uralmash" and JSC "Uralmash plant". Mr Efendiev has held the position of Managing Director of "Ural Steel" since June 2010.

Mr Nikolai Krylov is a Doctor of Law and received a J.D. from Yale Law School in 1994. Between 1994 and 1999, Mr Krylov worked at Paul, Weiss, Rifkind, Wharton & Garrison LLP and Cadwalader, Wickersham & Taft LLP, New York-based international law firms. In 2000, Mr Krylov joined Winston & Strawn LLP, an international law firm. Mr Krylov has been the head of the Russian practice at Winston & Strawn LLP since 2005. Mr Krylov also serves as independent director on the boards of OJSC "MegaFon" and CJSC "Kommersant".

Mr Krylov is an independent member of the Board of Directors of Metalloinvest Management Company.

Conflicts of Interest

Save as provided below in "—Interests of Management", there are no current or potential conflicts between the private interests and duties of the members of the Board of Directors of Metalloinvest Management Company and the duties of those Directors to Metalloinvest Management Company, the Parent, LGOK, OEMK or MGOK.

Interests of Management

Mr Ardavan Farhad Moshiri indirectly holds 5% of the shares in Joint Stock Company Holding Company Metalloinvest. As described in "Risk Factors—A small group of shareholders holds a significant portion of the Parent's outstanding shares and their interests could conflict with those of the holders of the Notes" and "Risk Factors—The Group has engaged, and Management expects it to continue to engage, in related party transactions", this interest could conflict with the those of the Group (including the Guarantors) and the holders of the Notes. None of the other Group's Management has any shares, any indirect interests and any options in the Parent. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by the Parent's disinterested directors or shareholders.

Certain Proceedings Against Management of the Group

At the date of the Prospectus, no member of the Group's Management for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

TERMS AND CONDITIONS OF THE NOTES

The following is the form of the terms and conditions of the Notes that will be endorsed on each definitive note (if and when issued) and that will be attached to, and in certain cases is amended by, the Global Notes:

The U.S.$750,000,000 6.50 per cent. guaranteed notes due 2016 of Metalloinvest Finance Limited (the "**Issuer**") (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) are constituted by a trust deed dated 21 July 2011 (the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for Noteholders (as defined below).

The Notes are guaranteed unconditionally and irrevocably, on a joint and several basis (the "**Initial Guarantees**"), by Joint Stock Company Holding Company Metalloinvest (the "**Parent**"), Joint Stock Company Lebedinsky Mining and Processing Plant and Joint Stock Company Oskol Elektrometallurgical Plant (each an "**Initial Guarantor**" and, together, the "**Initial Guarantors**") under a deed of guarantee between the Initial Guarantors and the Trustee, dated on or about the date of the Trust Deed under which the terms of the Trust Deed and the Conditions are incorporated by reference (the "**Deed of Guarantee**") and the Parent undertakes that the Notes will be additionally so guaranteed (the "**Additional Guarantee**") by Joint Stock Company Mikhailovsky GOK (the "**Additional Guarantor**" and, together with the Initial Guarantors, the "**Guarantors**") executing a deed of accession to the Deed of Guarantee, substantially in the form set out in the Schedule to the Deed of Guarantee, which is expected to occur not later than 50 calendar days after the Issue Date (as defined below). The Initial Guarantees and the Additional Guarantee are together referred to as the "**Guarantees**" and each is a "**Guarantee**".

The Notes were authorised by a meeting of the board of directors of the Issuer held on 15 July 2011. The Initial Guarantees of the Notes were authorised by, in respect of the Parent, a resolution of the general shareholders meeting on 1 July 2011 and, in respect of Joint Stock Company Lebedinsky Mining and Processing Plant and Joint Stock Company Oskol Elektrometallurgical Plant, resolutions of the sole shareholder thereof on 1 July 2011.

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Guarantee.

The Issuer has entered into a paying agency agreement (the "**Paying Agency Agreement**") dated 21 July 2011 with Deutsche Bank AG, London Branch, as the principal paying agent and a transfer agent (the "**Principal Paying Agent** and a "**Transfer Agent**", which expressions shall include any successors), Deutsche Bank Luxembourg S.A. as the Regulation S registrar (the "**Regulation S Registrar**", which expression shall include any successors), Deutsche Bank Trust Company Americas as the Rule 144A registrar, the U.S. paying agent and a transfer agent (the "**Rule 144A Registrar**" (and together with the Regulation S Registrar, the "**Registrars**" and each a "**Registrar**")), the "**U.S. Paying Agent**" and a "**Transfer Agent**", which expressions shall include any successors, and the U.S Paying Agent together with the Principal Paying Agent, the "**Paying Agents**") and the Trustee. References herein to the "**Agents**" are to the Regulation S Registrar, the Rule 144A Registrar, the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. The Initial Guarantors have entered into a paying agency support agreement (the "**Paying Agency Support Agreement**") dated 21 July 2011 with the Trustee and Agents under which the terms of the Paying Agency Agreement are incorporated by reference to support the Issuer's obligations in the Paying Agency Agreement.

Copies of the Trust Deed, the Deed of Guarantee and the Paying Agency Agreement are available for inspection during normal business hours at the registered office of the Trustee being, at the date hereof, at Winchester House, 1 Great Winchester Street, London EC2N 2DB. The Noteholders 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 those provisions of the Paying Agency Agreement and Paying Agency Support Agreement applicable to them.

Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed and the Deed of Guarantee.

1 Form and Denomination

The Notes are issued in fully registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**") without coupons.

*The Notes will be initially issued in global, fully registered form, and represented by (i) a Rule 144A Global Note (the "**Rule 144A Global Note**"), interests in which are to be sold to qualified institutional buyers (each a "**QIB**") within the meaning of, and pursuant to, Rule 144A ("**Rule 144A**") under the Securities Act and (ii) a Regulation S Global Note (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**"), interests in which are to be offered outside the United States to non-U.S. persons within the meaning of, and pursuant to, Regulation S under the Securities Act ("**Regulation S**") which will each be exchangeable for Notes in definitive, fully registered form ("**Definitive Notes**") in the limited circumstances specified in the Global Notes and the Paying Agency Agreement.*

2 Guarantee and Status

2.1 Guarantee

The Guarantors have or will (as applicable), pursuant to the Deed of Guarantee, unconditionally and irrevocably, on a joint and several basis (with each other Guarantor (present or future)), guaranteed or will guarantee (as applicable) the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes.

The Guarantors have undertaken in the Deed of Guarantee that so long as any of the Notes remain outstanding (as defined in the Trust Deed) they will not take any action for the liquidation or winding-up of the Issuer.

2.2 Status

The Notes constitute direct, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Each Guarantee constitutes direct, unsubordinated and unsecured obligations of the relevant Guarantor. Each of the Issuer and the Guarantors shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank in right of payment at least *pari passu* with the claims of all their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.

3 Register, Title and Transfers

3.1 Register

The Regulation S Registrar and the Rule 144A Registrar will each maintain (outside the United Kingdom) a register (each a "**Register**" and together the "**Registers**") at the specified office for the time being of the Regulation S Registrar and the Rule 144A Registrar, as the case may be, in respect of the Notes in accordance with the provisions of the Paying Agency Agreement and shall record in the relevant Register the names and addresses of the holders of the Notes corresponding to such Register, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the relevant Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

3.2 Title

Title to the Notes will pass by and upon registration in the relevant Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such Holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Note representing that Note, together with the

form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of a Transfer Agent or of the relevant Registrar, together with such evidence as such Transfer Agent or such Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the relevant Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than U.S.$200,000.

3.4 Registration and delivery of Definitive Notes

Within five business days of the surrender of a Definitive Note in accordance with Condition 3.3 above, the relevant Registrar will register the transfer in question and deliver a new Definitive Note to each relevant Holder at the specified office of such Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In the case of the transfer of only a part of the Notes represented by a Definitive Note, a new Definitive Note in respect of the balance of the Notes not transferred will be so delivered at the specified office of the relevant Registrar or (at the request of the transferor) at the specified office of a Transfer Agent or (at the request and risk of such transferor) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such transferor.

In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the relevant Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the relevant Registrar or the Transfer Agent, as applicable, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed periods

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

3.7 Regulations concerning Transfers and Registration

All transfers of Notes and entries on the relevant Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the Schedule 2 to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Transfer Agents and the Registrars. A copy of the current regulations will be sent by the relevant Registrar free of charge to any person who so requests and who can confirm they are a Holder to the satisfaction of the relevant Registrar and will also be available at the specified office of the Registrars.

4 Covenants

4.1 Negative Pledge

The Issuer and the Guarantors shall not, and the Parent shall procure that its Material Subsidiaries shall not, directly or indirectly, create, incur or suffer to exist any Liens, other than Permitted Liens, on any of its or their property or assets, now owned or hereafter acquired, or any income, revenue or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes or the Guarantors' obligations under the Deed of Guarantee, as the case may be, (a) are

secured equally and rateably with such other Indebtedness or (b) has the benefit of such other security or other arrangement as the Trustee, in its absolute discretion, shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

4.2 Mergers

(i) No Guarantor shall 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 Parent shall ensure that, without the prior written consent of the Trustee (or, alternatively, without the approval of an Extraordinary Resolution (as defined in the Trust Deed) so permitting), 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 the Russian Federation 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 (i) or (ii) above, any such reorganisation or other type of corporate reconstruction would result in a Material Adverse Effect.

4.3 Disposals

The Issuer and the Guarantors shall not, and the Parent shall procure that its Material Subsidiaries do not, make any Asset Sale, except for Asset Sales where the consideration received in respect of such disposed assets is at least equal to the Fair Market Value of such assets or properties sold, disposed of or otherwise transferred in such Asset Sale and where such Asset Sale would not have a Material Adverse Effect.

4.4 Limitation on Indebtedness

4.4.1 The Issuer and the Guarantors shall not, and the Parent shall not cause or permit any of its Subsidiaries to, incur, any Indebtedness except if: (i) no Default has occurred and is continuing at the time, or would occur as a consequence of the incurrence of such Indebtedness; and (ii) the Leverage Ratio is 3.5:1 or lower after giving effect to such incurrence on a *pro forma* basis.

4.4.2 Notwithstanding the foregoing Condition 4.4.1, the Issuer, each Guarantor and the Parent's Subsidiaries will be entitled to incur any or all of the following Indebtedness (each, "Permitted Indebtedness"):

(i) intercompany and intra-Group indebtedness owed to and held by the Parent or a Subsidiary of the Parent; provided, however, that any subsequent disposition, pledge or transfer of such Indebtedness (other than to the Parent or a Subsidiary of the Parent) shall be deemed, in each case, to constitute the incurrence of such Indebtedness by the obligor thereof;

(ii) Indebtedness outstanding on the Issue Date;

(iii) Indebtedness incurred under any revolving credit facility for working capital purposes providing that the maturity of any advance thereunder is less than 365 days and the principal amount outstanding thereunder does not exceed U.S.$300,000,000 at any one time;

(iv) Indebtedness of the Parent or a Subsidiary of the Parent incurred and outstanding on or prior to the date on which such Subsidiary became a Subsidiary of the Parent (other than Indebtedness incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Parent); provided, however, that on the date of such acquisition and after giving pro forma effect thereto, the Parent would have been entitled to incur at least U.S.$1.00 of additional Indebtedness pursuant to Condition 4.4.1 above;

(v) Refinancing Indebtedness incurred by the Parent or a Subsidiary of the Parent in respect of Indebtedness incurred by the Parent or a Subsidiary of the Parent pursuant to Condition 4.4.1 above or pursuant to Condition 4.4.2;

(vi) Indebtedness under any hedging agreement of the Parent or any Subsidiary of the Parent entered into to limit interest rate, exchange rate or commodity price risks; provided that such hedging agreement is not for speculative purposes;

(vii) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* (Russian rouble-denominated short-term promissory notes) or similar obligations provided by the Parent or any Subsidiary of the Parent in the ordinary course of business;

(viii) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence;

(ix) Indebtedness arising from agreements of the Parent or a Subsidiary of the Parent providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Parent or any Subsidiary of the Parent; provided that (A) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the net proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness for later release to) the Parent and its Subsidiaries in connection with such disposition (without giving effect to any subsequent changes in value) and (B) such Indebtedness is not reflected on the balance sheet of the Parent or any Subsidiary of the Parent (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of this part (B) of this paragraph (ix));

(x) (a) Purchase Money Indebtedness and (b) Capital Lease Obligations incurred to finance the acquisition by the Parent or a Subsidiary of the Parent of assets in the ordinary course of business;

(xi) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(xii) Indebtedness incurred under any revolving credit facility entered into in connection with the cash pooling arrangements of the Group provided the aggregate amount of Indebtedness outstanding under such revolving facilities shall not exceed U.S.$200,000,000 at any time;

(xiii) Indebtedness in respect of customer deposits and advance payments received from customers in the ordinary course of business;

(xiv) Indebtedness incurred by any Subsidiary of the Group involved in trading operations with respect to any Commodity in the ordinary course of its trading operations in order to finance the acquisition, transport, storage and sale of such Commodity and collateralised by such Commodity purchased using such financing and/or the accounts receivables relating to the subsequent sale of such Commodity to the Group's customers ("**Trading Finance**"); and

(xv) other Indebtedness of the Parent and its Subsidiaries in an aggregate principal amount which, when taken together with the principal amount of all other Indebtedness incurred pursuant to this paragraph (xv) and then outstanding, will not exceed U.S.$300,000,000 at any time outstanding provided, however, that if an item of Indebtedness initially incurred pursuant to this paragraph (xv) can subsequently be incurred pursuant to Condition 4.4.1, such Indebtedness shall be deemed to have been incurred under Condition 4.4.1 and not under this paragraph (xv).

4.4.3 Notwithstanding the foregoing, the Issuer and the Guarantors will not incur any Indebtedness pursuant to this covenant if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of such entities unless such Indebtedness shall be subordinated to the Notes and the Guarantees to at least the same extent as such Subordinated Obligations.

4.4.4 For purposes of determining compliance with this covenant:

(i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.4.1 or 4.4.2, the Parent, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of incurrence and will only be required to include the amount and type of such Indebtedness in one of the above sub-Clauses; and

(ii) the Parent will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.4.1 or 4.4.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.4.1 or 4.4.2 at any time. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, Lien, letter of credit or similar instrument supporting such Indebtedness shall not be double counted.

4.4.5 For purposes of determining compliance with any U.S. dollar denominated restriction on the incurrence of Indebtedness where the Indebtedness incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a currency hedging agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such currency hedging agreement. The principal amount of any Refinancing Indebtedness incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the principal amount of such Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is incurred. Notwithstanding any other provision of this covenant, the maximum amount that the Issuer, a Guarantor or a Subsidiary of the Parent may incur pursuant to this covenant shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

4.5 Transactions with Affiliates

The Issuer and the Guarantors shall not, and the Parent shall ensure that none of its Material Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans, unless the terms of such Affiliate Transaction are no less favourable to such entity, than those that could be obtained (at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefore) in a comparable arm's-length transaction with a Person that is not an Affiliate of such entity.

For the avoidance of doubt, this Condition 4.5 does not apply to: (i) any Affiliate Transaction between the Parent and its Subsidiaries and between or among Subsidiaries of the Parent; or (ii) any Affiliate Transaction not involving, individually or in aggregate, payments or value in excess of U.S.$50,000,000; or (iii) compensation or employee benefit arrangements with any employee, officer or director of the Issuer, the Guarantor or any Material Subsidiary of the Parent arising as a result of their employment contract; or (iv) any other arrangement existing on the Issue Date and disclosed in the Prospectus.

4.6 Change of Business

The Guarantors shall procure that no change is made to the general nature of the Core Business.

4.7 Maintenance of Authorisations

The Issuer and each Guarantor shall take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which in each case may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Notes or the Guarantees, as the case may be, or for the validity or enforceability thereof, provided that, in any case if any such entity, can remedy any failure to comply with this Condition 4.7 within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

4.8 Claims *Pari Passu*

The Issuer and the Guarantors shall ensure that at all times the claims of Noteholders under the Notes and the Guarantees, as the case may be, rank at least *pari passu* with the claims of all their respective other present and future unsecured creditors, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application or any other mandatory provisions of applicable law.

4.9 Maintenance of Property

The Issuer and the Guarantors shall, and the Parent shall ensure that each of its Material Subsidiaries will, cause all property that is used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Parent or the relevant Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, provided that if the Parent or any such entity can remedy any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.$250,000,000 (or its foreign currency equivalent), this covenant shall be deemed not to have been breached.

4.10 Payment of Taxes

The Issuer and the Guarantors shall, and the Parent shall ensure that each of its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon its income, profits or property; provided that this covenant shall not be breached if any such entity has failed to pay or discharge or cause to be paid or discharged any tax, assessment or charge (a) if such amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with Accounting Standards or other appropriate provision has been made; or (b) if a failure to pay, or discharge or cause to be paid or discharged such amount, together with all such other unpaid or undischarged taxes, assessments and charges, would not have a Material Adverse Effect.

4.11 Maintenance of Insurance

The Issuer and the Guarantors shall, and the Parent shall ensure that each of its Material Subsidiaries will, keep those of their assets used in the Core Business which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character and value is usually so insured by corporations operating in the same industry and in the same jurisdictions similarly situated and owning similar properties in the same jurisdictions, provided that if the relevant entity can remedy any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by such entity over the preceding 3 years) do not exceed U.S.$250,000,000 (or its foreign currency equivalent), this covenant shall be deemed not to have been breached.

4.12 Covenant Fall-Away

From and after the date on which the Notes have reached Investment Grade Status and at all times thereafter, the Issuer and Guarantors will be released from their respective obligations to comply with Conditions 4.2 to 4.11 inclusive and, in each case, any related Events of Default under Condition 9.

4.13 Financial Information

The Issuer and Guarantors shall (i) make available on the Parent's website or (ii) so long as the Notes are listed on the Stock Exchange (or any alternative stock exchange), make available on the official website of the Stock Exchange (or such alternative stock exchange), to the extent and in the manner permitted by the rules of the Stock Exchange (or such alternative stock exchange):

4.13.1 as soon as they become available, but in any event within 150 days after the end of each of its financial years, copies of the Accounts for such financial year, in each case audited by the Auditors and prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period prepared in accordance with Accounting Standards; and

4.13.2 as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, the Accounts for such period in each case reviewed by the Auditors and prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period prepared in accordance with Accounting Standards,

provided that each set of Accounts delivered by it pursuant to this Condition 4.13 is accompanied by a report thereon of the Auditors (including opinions of such Auditors with accompanying notes and annexes).

5 Interest

The Notes bear interest from and including the Issue Date at the Rate of Interest, payable semi-annually in arrear no later than 10:00 a.m. (New York City time) on 21 January and 21 July in each year (each an "**Interest Payment Date**"), the first such Interest Payment Date being 21 January 2012. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Issue 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 is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount, dividing the resulting product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest Period, the relevant day-count fraction will be determined 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 actual days elapsed.

6 Redemption and Purchase

6.1 Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed or repaid by the Issuer at 100 per cent. of their principal amount thereof together with accrued interest on 21 July 2016 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer or any Guarantor other than in accordance with this Condition 6.

6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees were called, a Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction, or any change in the published application or official interpretation of such laws,

treaties or regulations, which change or amendment becomes effective on or after 19 July 2011 and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (x) a certificate signed by the requisite number of Authorised Signatories of the Issuer (or the relevant Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the relevant 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 Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the relevant Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) above, in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

6.3 Redemption upon a change of control

If a Change of Control Put Event (as defined below) shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent. of its principal amount together with accrued interest (if any) and any additional amounts or other amounts that may be due thereon, up to but excluding the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 16, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such holder's entitlement to such Note and a duly completed change of control put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Change of Control Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered to the Principal Paying Agent in accordance with this Condition 6, may be withdrawn.

For the purposes of these Conditions, a "**Change of Control**" shall occur at any time that any person and persons acting together and/or in concert, other than one or more of the Permitted Holders is or becomes the beneficial owner (directly or indirectly) of more than 50 per cent. of the issued and outstanding voting share capital of the Parent.

"**Change of Control Put Event**" means the occurrence of a Change of Control.

"**Permitted Holders**" means any and all of:

(a) Gallagher Holdings Limited, Seropaem Holdings Limited and Coalco Metals Limited;

(b) any direct or indirect beneficial owner of the Capital Stock of Gallagher Holdings Limited, Seropaem Holdings Limited and/or Coalco Metals Limited at the Closing Date;

(c) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which the foregoing are the only beneficiaries;

(d) any Affiliate of a party described in (a) or (b) above;

(e) any spouse, family member or relative of any individual described in (b) above, any partnership for the benefit of any such individual, family member or relative, or the estate, executor, administrator or beneficiaries of any such individual, family member or relative; or

(f) any Subsidiary of any of the foregoing parties.

6.4 Redemption at the Option of the Noteholders on the failure to procure the Additional Guarantee

If an Additional Guarantee Event (as defined below) shall have occurred, the holder of a Note will have the option (the "**Additional Guarantee Event Put Option**") to require the Issuer to redeem such Note on the Additional Guarantee Event Payment Date (as defined below) at 101% of the principal amount thereof, together with accrued but unpaid interest thereon (if any) and any additional amounts or other amounts that may be due thereon, up to but excluding the Additional Guarantee Event Payment Date (as defined below)

Promptly upon the Issuer becoming aware that an Additional Guarantee Event has occurred, the Issuer shall give notice (an "**Additional Guarantee Event Notice**") to the Noteholders in accordance with Condition 16, specifying (i) that an Additional Guarantee Event has occurred (ii) the Additional Guarantee Event Put Period (as defined below) (iii) the procedure for exercising the Additional Guarantee Event Put Option, (iv) that any Note not properly tendered or not tendered at all prior to the Additional Guarantee Event Payment Date will remain outstanding and continue to accrue interest and additional amounts (if any) and (v) that Noteholders whose Notes are being repurchased only in part will be issued new Definitive Notes equal in principal amount to the unpurchased portion of the principal amount of the Notes surrendered, which unpurchased portion must be an Authorised Denomination.

In order to exercise the Additional Guarantee Event Put Option, the holder of a Note must deliver no later than 60 calendar days after the Additional Guarantee Event Notice is given (the "**Additional Guarantee Event Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such holder's entitlement to such Note and a duly completed additional guarantee put option notice (an "**Additional Guarantee Event Put Option Notice**") specifying the principal amount of the Notes in respect of which the Additional Guarantee Event Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day (as defined herein) following the end of the Additional Guarantee Event Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Additional Guarantee Event Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Additional Guarantee Event Put Option. Provided that the Notes that are the subject of any such Additional Guarantee Event Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Additional Guarantee Event Put Period, then the Issuer shall redeem all such Notes on the date falling 5 Business Days after the expiration of the Additional Guarantee Event Put Period (the "**Additional Guarantee Event Payment Date**"). No Additional Guarantee Event Put Option Notice, once delivered to the Principal Paying Agent in accordance with this Condition 6.4, may be withdrawn.

For the purposes of these Conditions "**Additional Guarantee Event**" means the failure of the Additional Guarantor, not later than 50 calendar days after the Issue Date, to execute and deliver to the Trustee a Deed of Accession (as defined in the Deed of Guarantee), in the form set out in the schedule to the Deed of Guarantee, pursuant to which the Additional Guarantor will, jointly and severally and unconditionally and irrevocably guarantee the payment of all moneys payable under these Conditions and will become vested with all the duties and obligations of a Guarantor as if originally named a Guarantor under the Deed of Guarantee.

6.5 Make-Whole

At any time prior to the Maturity Date, but on one occasion only, the Issuer may, at its option, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (the "**Call Option Notice**") repay the Notes in whole but not in part, at the price which shall be the following:

(i) the principal amount; plus

(ii) the Make Whole Premium; plus

(iii) interest and any additional amounts or other amounts that may be due thereon (if any) accrued but unpaid to but excluding the date on which the call option is to be settled (the "**Call Settlement Date**").

The Call Option Notice shall specify the Call Redemption Date.

For the purposes of this Condition:

"**Make Whole Premium**" means, with respect to a Note at any time, the excess of (a) the present value of the Notes at the Call Settlement Date, plus any required interest payments that would otherwise be due to be paid on such Notes from the Call Settlement Date through to the Maturity Date, together with any accrued and unpaid interest as at the Call Settlement Date, if any, calculated using a discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances, the value of the Make Whole Amount will be equal to zero.

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Maturity Date. The Parent (on behalf of the Issuer) will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); provided, however, that if the period from the Call Settlement Date to the Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Maturity Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

6.6 Purchase

The Issuer, each Guarantor and any of their respective Subsidiaries may at any time purchase Notes from time to time having an aggregate principal value of at least U.S.$1,000,000, in the open market or by tender or by private agreement at any price.

6.7 Cancellation

All Notes redeemed or purchased pursuant to this Condition 6 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

7 Payments

7.1 Principal and other amounts

Payment of principal and interest in respect of the Notes will be made to the persons shown as the Holder in the relevant Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

7.2 Payments

Each payment in respect of the Notes pursuant to Condition 7.1 shall be made by U.S. Dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent. Payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the

due date for payment (for value the next business day). Where payment in respect of a Note is to be made by cheque, the cheque will be, at the expense of the Issuer, mailed to the address shown as the address of the Noteholder in the relevant Register at the opening of business on the relevant Record Date.

7.3 Payments subject to laws

All payments in respect of the Notes are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on business days

A Note may only be presented for payment on a day which is a business day in the place of presentation. If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, New York City, and in the city where the specified office of the Principal Paying Agent is located.

7.5 Record date

"**Record Date**" means the fifteenth calendar day, in the place of the specified office of the relevant Registrar, before the due date for the relevant payment.

7.6 Agents

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantors, acting together, reserve the right to vary or terminate the appointment of all or any of the Agents at any time (with the written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that they will maintain (i) a Principal Paying Agent, (ii) a Regulation S Registrar and a Rule 144A Registrar with a specified office outside the United Kingdom and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, which may be the Principal Paying Agent. Notice of any such change will be provided to Noteholders as described in Condition 16.

In acting under the Paying Agency Agreement and the Paying Agency Support Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantors and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

8 Taxation

All payments of principal, interest and or premium in respect of the Notes by or on behalf of the Issuer or under the Guarantees by the Guarantors shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Ireland (in the case of the Issuer) or the Russian Federation (in the case of the Guarantors) or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the relevant Guarantor shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantees by reason of its having some connection with Ireland or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantees; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or

(c) 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 or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law of the European Union or a non member-state implementing or complying with, or introduced in order to conform to, such Directive; or

(d) by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Definitive Note to another Paying Agent in a member state of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal, interest or premium shall be deemed to include any additional amounts in respect of principal, interest or premium (as the case may be) which may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 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 Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an "**Event of Default**"):

(a) the Issuer fails to pay any amount with respect to any of the Notes (other than interest after the due date for payment thereof) by no later than the fifth Business Day after the due date for payment thereof or fails to pay any amount of interest by no later than the seventh Business Day after the due date for payment thereof; or

(b) the Issuer or any Guarantor, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, and except where such default is not capable of remedy, such default remains unremedied for 30 Business Days after written notice thereof, addressed to the Issuer or the relevant Guarantor, as the case may be, has been delivered by or on behalf of the Trustee to the Issuer or such Guarantor, as the case may be; or

(c)

(i) any Indebtedness of the Issuer or a Guarantor or any of the Parent's other Material Subsidiaries is not paid when due and payable within any originally 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 or (as the case may be) a Guarantor or any of the Parent's other Material Subsidiaries 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 sub-paragraph (i) and/or sub-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) the amount of unsatisfied judgments, decrees or orders of courts or dispute resolution bodies of competent jurisdiction for the payment of money against the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries in the aggregate at any given moment of time exceeds

U.S.$100,000,000, 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

(e) a secured party takes possession, or a receiver, manager or other similar officer is appointed, to the whole or, (in the case of the Parent) any material part (in the opinion of the Trustee) or (in all other cases other than with respect to the Parent) the majority, of the undertaking, assets and revenues of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries and such security, possession or appointment is not discharged or stayed within 60 calendar days; provided that with respect to the Parent's other Material Subsidiaries that are not Guarantors the occurrence of any such event would have a Material Adverse Effect; or

(f) the occurrence of any of the following events:

(i) any of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries ceases to have corporate existence or is seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidator or liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of such entity, as the case may be, or takes any other corporate action in relation to such entity for winding up (otherwise than for the purposes of or pursuant to an amalgamation, transformation, reorganisation or restructuring whilst solvent);

(ii) the presentation or filing of a petition in respect of any of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries (in any court of competent jurisdiction, arbitration court or before any competent agency alleging, or for, the bankruptcy, insolvency, examinership, dissolution, administration, reorganisation or liquidation (or any analogous proceedings) including in the case of any entity in the Russian Federation the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo* as such terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) (the "**Insolvency Law**")) of any such entity (ignoring any petition that is not accepted by such court or competent agency for review on its merits) and otherwise than for the purposes of or pursuant to an amalgamation, transformation, reorganisation or restructuring whilst solvent, and where such petition is presented or filed by a person that is not the Parent or a Subsidiary of the Parent, either (a) such petition remains undischarged for at least 60 calendar days or (b) if earlier, a court or competent agency institutes bankruptcy, insolvency, examinership, dissolution, administration, reorganisation or liquidation (or any analogous proceedings) including in the case of any entity in the Russian Federation the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) over the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries;

(iii) the institution in relation to, or entry into by, as the case may be, the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries of, composition, compromise, assignment, arrangement, reprieve from payments, generally controlled management, fraudulent conveyance, reorganisation, or similar proceedings or measures affecting the rights of creditors generally which, in the case of any entity in the Russian Federation and without limitation, shall include implementation of recovery (*sanatsiya,* as defined in the Insolvency Law) if it remains undischarged for at least 60 calendar days in circumstances where the implementation is capable of challenge or appeal, or entry into an amicable settlement (including *mirovoye soglasheniye,* as defined in the Insolvency Law) with its creditors generally, otherwise in each case in this paragraph (iii) than for the purposes of or pursuant to an amalgamation, transformation, reorganisation or restructuring whilst solvent;

(iv) any extra-judicial liquidation or analogous act in respect of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries by any governmental, regulatory or supervisory body; or

(g) the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to rescheduling all or a material part of its Indebtedness or, in the case of any

entity in the Russian Federation, meets the insolvency criteria set out in the relevant laws of the Russian Federation; the value of the assets of any of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of all or a material part of Indebtedness of any of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries; or

(h) the Group ceases to carry on the Core Business; or

(i) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or a Guarantor lawfully to enter into and perform and comply with its obligations under and in respect of the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Trust Deed and the Deed of Guarantee admissible in evidence in an arbitration court in London, is not taken, fulfilled or done and such event continues for a period of more than 60 calendar days; or

(j) (i) all or (in the case of the Parent) any material part (in the opinion of the Trustee) or (in all other cases other than with respect to the Parent) the majority, of the undertaking, assets and revenues of the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries (is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) the Issuer, a Guarantor or any of the Parent's other Material Subsidiaries is prevented by any such Person from exercising normal control over all or (in the case of the Parent) any material part (in the opinion of the Trustee) or (in all other cases other than with respect to the Parent) the majority, of its undertaking, assets and revenues provided that with respect to the Material Subsidiaries who are not Guarantors the occurrence of (i) or (ii) of this paragraph (j) above would have a Material Adverse Effect; or

(k) at any time it is or becomes unlawful for the Issuer or a Guarantor to perform or comply with any or all of its obligations under the Notes, the Trust Deed or the Deed of Guarantee or any of such obligations are not, or cease to be, legal, valid, binding and enforceable or the Issuer or a Guarantor contests the validity thereof or repudiates (or purports to repudiate) them and such event continues for a period of more than 60 calendar days; or

(l) any governmental or other Agency authorisation necessary for the performance of any obligation of the Issuer or a Guarantor under the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, fails to be in full force and effect and such event continues for a period of more than 60 calendar days; or

(m) any event occurs which under the laws of any Relevant Jurisdiction has an effect analogous to any of the events referred to in paragraphs (f) and (g).

10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

11 Replacement of Definitive Notes

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified offices of the relevant Registrar or the Transfer Agents on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the relevant Registrar or the Transfer Agents. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12 Meetings of Noteholders, Modification and Waiver

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Deed of Guarantee or the Trust Deed. Noteholders will be entitled to one vote per U.S.$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer, the Parent or

the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of, inter alia (i) altering the terms and conditions relating to the maturity, redemption, prepayment and repayment (including, without prejudice to the generality of the foregoing, Condition 5) or postponing any date for payment of interest, (ii) reducing the principal amount of the Notes, (iii) varying the amounts corresponding to interest or principal payable in respect of the Notes or the method of determining such payments in respect of the Notes, (iv) varying the currency in which payments under the Notes are to be made, (v) modifying or cancelling the Guarantees, (vi) amending the provisions of Schedule 3 of the Trust Deed concerning the quorum required at any meeting of the Noteholders or any adjourned such meeting thereof or concerning the majority required to pass an Extraordinary Resolution, (vii) amending the proviso to paragraph 5 of Schedule 3 of the Trust Deed, or (viii) giving a direction pursuant to Condition 12 or Clause 6.1(i) of the Trust Deed. Under the terms of the Trust Deed, an Extraordinary Resolution means a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained therein by the affirmative vote of Holders of outstanding (as defined in the Trust Deed) Notes present in person or represented by proxy or representative owning in the aggregate not less than two-thirds in principal amount of the Notes outstanding owned by the Noteholders who are so present or represented at the meeting. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

12.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Deed of Guarantee, the Trust Deed, the Paying Agency Agreement or the Paying Agency Support Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer or the Guarantors of the Notes, the Deed of Guarantee or the Trust Deed, or determine that any event which would or might otherwise give rise to a right of acceleration under the Notes shall not be treated as such, if in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders, provided always that the Trustee may not exercise such power of waiver in contravention of a written request given by holders of 25 per cent. in aggregate principal amount of the Notes then outstanding or any express direction by Extraordinary Resolution. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 16.

12.3 Entitlement of the Trustee

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, a Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings or take such steps or actions against the Issuer and/or any Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes and/or the Deed of Guarantee (whether by arbitration or litigation pursuant to the Trust Deed, the Conditions or the Deed of

Guarantee), but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings, steps or actions) unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any of the Guarantors unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking proceedings or steps or actions to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, each Guarantor and any entity related to the Issuer and/or any Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or the Deed of Guarantee or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Guarantors in respect of the Deed of Guarantee. The Trustee is entitled to assume that Issuer is performing all of its obligations pursuant to the Notes and the Trust Deed and that the Guarantors are performing their obligations under the Deed of Guarantee (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from guarantees substantially in the form of the Deed of Guarantee given in respect of these Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides. Application will be made for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16 Notices

All notices to Noteholders shall be deemed to have been validly given if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

In case by reason of any other cause it shall be impracticable to publish any notice to Noteholders as provided above, then such notification to such Noteholders as shall be given with the approval of the Trustee in accordance with the rules of the Stock Exchange shall constitute sufficient notice to such Noteholders for every purpose hereunder.

17 Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes.

18 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or any Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, failing whom the Guarantors jointly and severally, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantors and delivered to the Issuer and the Guarantors or to the specified office of the relevant Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantors and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed, the Deed of Guarantee and/or the Notes or any other judgment or order.

19 Contracts (Rights of Third Parties) Act 1999

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

20 Governing law

The Trust Deed, the Notes, the Deed of Guarantee and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by and construed in accordance with English law.

21 Jurisdiction

If any party considers there is a dispute arising out of or in connection with the Notes, the Trust Deed, the Deed of Guarantee and these Conditions (including a dispute as to the validity, existence or termination hereof or thereof or the consequences of its nullity and a dispute relating to non-contractual obligations arising out of or in connection herewith or therewith) (a "**Dispute**"), it may notify the other parties in writing of the existence of such a Dispute (a "**Notice of Dispute**"). The Parties irrevocably agree that any Dispute shall be referred to and finally resolved:

21.1 subject to Condition 21.2, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of Arbitration ("LCIA Rules"), which rules are deemed to be incorporated by reference into these Conditions. Any restriction in the LCIA Rules upon the nomination or appointment of an arbitrator by reason of nationality shall not apply to any arbitration commenced pursuant to this clause. Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If the third arbitrator is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court; or

21.2 at the option of the Trustee, by proceedings brought in the courts of England and Wales. If such option is exercised in relation to a Dispute: the parties agree that the courts of England and Wales have non-exclusive jurisdiction in relation to such Dispute; and each of the parties irrevocably waives any

objection which it might now or hereafter have to the courts of England and Wales as the forum, and agrees not to claim that any such court is not a convenient or appropriate forum, to hear and determine such Dispute. For the avoidance of doubt, this Condition 21.2 is for the benefit of the Trustee alone and shall not limit the right of the Trustee to bring proceedings in any other court of competent jurisdiction.

22 Issuer's Process Agent

The Issuer undertakes irrevocably to appoint Law Debenture Corporate Services Limited (the "**Issuer's Process Agent**"), now of Fifth Floor, 100 Wood Street, London EC2V 7EX, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

(i) service upon the Issuer's Process Agent shall be deemed valid service upon the Issuer whether or not the process is forwarded to or received by the Issuer;

(ii) the Issuer shall inform the Trustee, in writing, of any change in the address of the Issuer's Process Agent within 28 days of such change;

(iii) if the Issuer's Process Agent ceases to be able to act as a process agent or to have an address in England, the Issuer irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the Trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and

(iv) nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

23 Guarantors' Process Agent

The Guarantors' undertake irrevocably to appoint Law Debenture Corporate Services Limited (the "**Process Agent**"), now of Fifth Floor, 100 Wood Street, London EC2V 7EX, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

(i) service upon the Guarantors' Process Agent shall be deemed valid service upon the Guarantors whether or not the process is forwarded to or received by the Guarantors;

(ii) the Guarantors shall inform the Trustee, in writing, of any change in the address of the Guarantors' Process Agent within 28 days of such change;

(iii) if the Guarantors' Process Agent ceases to be able to act as a process agent or to have an address in England, the Guarantors irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the Trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and

(iv) nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

24 Immunity

To the extent that the Issuer or any Guarantor may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or any Guarantor any such immunity (whether or not claimed), the Issuer and each Guarantor hereby irrevocably agrees not to claim, and hereby waive, any such immunity.

25 Non-Petition

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement,

insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

26 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 26.

"**12-month Consolidated EBITDA**" means the aggregate Consolidated EBITDA for the two most recent Measurement Periods preceding any date of determination for which consolidated financial statements of the Group are available.

"**Accounting Standards**" means IFRS, or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the relevant regulators for the time being; provided however, that where such term is used with respect to the financial statements of the Subsidiaries of the Parent, in these Conditions, it shall, where financial statements prepared in accordance with IFRS are not available, be deemed to include U.S. GAAP, Russian accounting standards or any other generally accepted accounting standards of the jurisdiction of incorporation of the relevant Subsidiary from time to time.

"**Accounts**" means the consolidated accounts of the Parent prepared in accordance with Accounting Standards.

"**Accounts Regulation**" means Article 3 of Regulation (EC) No. 1606/2002.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory Person (whether autonomous or not).

"**Approved Jurisdiction**" means, as at any date of determination, the United States of America, the Russian Federation, Switzerland, Canada and any member state of the European Union as constituted on such date.

"**Asset Acquisition**" means (i) an investment by Metalloinvest or any Subsidiary of Metalloinvest in any other Person pursuant to which such Person shall become a Subsidiary of Metalloinvest, or shall be consolidated or merged with Metalloinvest or any Subsidiary of Metalloinvest or (ii) the acquisition by Metalloinvest or any Subsidiary of Metalloinvest, of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"**Asset Sale**" means any direct or indirect lease, sale, transfer or other disposition (in each case other than a sale and lease-back) either in one transaction or in a series of related transactions, by the Issuer, a Guarantor or any of the Parent's Material Subsidiaries to a Person that is not part of the Group, including any disposition by means of a merger, consolidation or similar transaction, of any of its properties or assets (including any shares of Capital Stock of a Material Subsidiary of the Parent (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Parent or a Subsidiary of the Parent), other than:

(a) a disposition of cash or Cash Equivalents;

(b) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien) in compliance with Condition 4.1;

(c) any disposition constituting or resulting from the enforcement of a Lien incurred in compliance with Condition 4.1;

(d) the licensing or sub-licensing of rights to intellectual property or other intangibles in the ordinary course of business;

(e) the sale, lease or other disposition of obsolete, worn out, negligible, surplus or outdated equipment or machinery or raw materials or inventory or any other asset, in each case which is no longer used or usable in the ordinary course of business, such sale, lease or other disposition being in the ordinary course of business;

(f) the lease, assignment or sublease of any real or personal property in the ordinary course of business, including the sale of accounts receivable in factoring arrangements entered into in the ordinary course of business;

(g) sales or other dispositions of assets or property received by the Parent or any Material Subsidiary of the Parent upon the foreclosure on a Lien granted in favour of the Parent or any Material Subsidiary of the Parent or any other transfer of title with respect to any ordinary course secured investment in default;

(h) sales or other disposals of Commodities and other products or stock in trade on an arm's length basis in the ordinary course of business, including, but not limited to, disposals under any Product Delivery Contracts; and

(i) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of business.

"**Auditors**" means the internationally recognised auditors of the Parent's financial statements under Accounting Standards (consolidated if the same are then prepared) or, if they are unable or unwilling or cease to carry out any action requested on envisaged of them under these Conditions, such other internationally recognised firm of accountants as may be nominated by the Parent.

"**Authorised Signatory**" means, in relation to the Issuer (including in respect of any certificate given by it pursuant to these Conditions), an authorised attorney of the Issuer or any officer of the Issuer who is authorised to bind the Issuer by virtue of the Issuer's constitutive documents and, in relation to any Guarantor (including in respect of any certificate given by it pursuant to these Conditions), any two directors or members of the management board of such Guarantor or any two officers of such Guarantor who are authorised to bind such Guarantor by virtue of such Guarantor's constitutive documents or any two persons who are authorised under powers of attorney executed by such officers on behalf of such Guarantor and "**Authorised Signatories**" shall have a corresponding meaning.

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorised committee thereof and as it relates to the Parent, includes the board of directors or equivalent competent governing body of OOO Management Company Metalloinvest, or any duly authorised committee thereof.

"**Business Day**" means a day on which (a) the London Interbank Market is open for dealings between banks generally and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in New York City, Moscow, and in the city where the specified office of the Principal Paying Agent is located.

"**Capital Lease Obligation**" means an obligation that is required to be classified and accounted for as a finance or capital lease for financial reporting purposes in accordance with Accounting Standards, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with Accounting Standards; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"**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 used.

"**Cash Equivalents**" means:

(a) any investment in direct obligations of an Approved Jurisdiction or any Agency thereof or obligations guaranteed by an Approved Jurisdiction or any Agency thereof;

(b) investments in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of an Approved Jurisdiction, and which bank or

trust company has capital, surplus and undivided profits aggregating in excess of U.S.$500,000,000 (or the foreign currency equivalent thereof) and has outstanding debt which is rated "BBB-" or "Baa3" (or such similar equivalent rating) or higher by at least one nationally recognised statistical rating organisation;

(c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in Clause (a) above entered into with a bank meeting the qualifications described in Clause (b) above;

(d) investments in commercial paper with a maturity of one year or less from the date of acquisition, issued by a corporation (other than an Affiliate of the Parent) organised and in existence under the laws of an Approved Jurisdiction with a rating at the time as of which any investment therein is made of "P1" (or higher) or "A1" (or higher), as the case may be, according to a Rating Agency;

(e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of an Approved Jurisdiction or by any political subdivision or taxing authority thereof, and rated at least "BBB-" or "Baa3", as the case may be, by a Rating Agency; and

(f) investments in money market funds that invest substantially all their assets in securities of the types described in Clauses (a) through (e) above.

"**Commodity**" means iron ore products (pellets and concentrate or briquettes), pig iron, steel and ferrous metal products.

"**Consolidated EBITDA**" means the consolidated pre-taxation profits of the Group for any Measurement Period as adjusted by:

(a) adding back Consolidated Interest Costs;

(b) excluding Consolidated Interest Income;

(c) taking no account of any extraordinary item or any exceptional items;

(d) adding back depreciation and amortisation;

(e) adding back foreign exchange loss;

(f) excluding foreign exchange gain; and

(g) adding back impairment loss,

in each case, as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards.

"**Consolidated Indebtedness**" means at any date of determination (and without duplication) the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of the Indebtedness of the Group on a consolidated basis as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards.

"**Consolidated Interest Costs**" means all interest and other financing charges but not including any foreign exchange loss (whether, in each case, paid, payable or capitalised) payable in respect of Indebtedness incurred by the Group on a consolidated basis during a Measurement Period as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards.

"**Consolidated Interest Income**" means all interest and other financing charges but not including any foreign exchange gains (whether, in each case, paid or payable) received by the Group on a consolidated basis during a Measurement Period as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards.

"**Core Business**" means the business of:

(a) mining of any nature;

(b) metallurgy of any nature;

(c) activities in respect of producing, refining or distributing oil, gas and/or related by-products for the purpose of supporting the businesses set out in paragraphs (a) and (b) above;

(d) activities in respect of transportation for the purpose of supporting the businesses set out in paragraphs (a) and (b) above;

(e) collecting, processing and distributing scrap;

(f) leasing operations and other operations ancillary to and entered into for the purpose of supporting the businesses set out in paragraphs (a) and (b) above; and

(g) power generation for the purpose of supporting the businesses set out in paragraphs (a) and (b) above.

"**Currency Agreement**" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

"**Default**" means an Event of Default or a Potential Event of Default.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Parent or the relevant Subsidiary thereof who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Parent or any of its Subsidiaries or acting as an officer, director or employee of the Parent or any of its Subsidiaries.

"**Dollars**", "**U.S.$**" and "**U.S. Dollars**" means the lawful currency of the United States of America.

"**EBITDA**" of a Subsidiary of the Parent means the pre-taxation profits of the relevant Subsidiary for any Measurement Period as adjusted by:

(a) adding back Interest Costs;

(b) excluding Interest Income;

(c) taking no account of any extraordinary item or any exceptional items;

(d) adding back depreciation and amortisation;

(e) adding back foreign exchange loss;

(f) excluding foreign exchange gain; and

(g) adding back impairment loss,

in each case, as calculated in accordance with the then most recently published financial statements of the relevant Subsidiary prepared in accordance with Accounting Standards.

"**Event of Default**" has the meaning assigned to such term in Condition 9.

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined (in the case of (i) any disposal to an Affiliate of the Person making the disposal that is not a member of the Group or (ii) any disposal that is otherwise not on an arms-length basis) in good faith by the Board of Directors of the Parent or the relevant Subsidiary thereof (including a majority of the Disinterested Directors, if applicable) whose determination shall be conclusive if evidenced by a resolution of such Board of Directors.

"**Group**" means the Parent and its Subsidiaries taken as a whole.

"**guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for the payment of such Indebtedness.

"**IFRS**" means the 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 (as amended, supplemented or re-issued from time to time).

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary.

"**Indebtedness**" means without duplication, any liability (actual or contingent) for, or in respect of:

(a) moneys borrowed;

(b) amounts raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments or pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder;

(d) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with Accounting Standards, be treated as finance or capital leases;

(e) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or any purchase agreement) having the economic or commercial effect of a borrowing;

(g) any amount raised pursuant to an arrangement whereby an asset sold or otherwise disposed of by the relevant Person may be leased or re-acquired by that Person or an Affiliate of that Person (whether following the exercise of an option or otherwise);

(h) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account (after any applicable netting or set-off in accordance with Accounting Standards)); and

(i) any counter-indemnity or any similar reimbursement obligation in respect of any guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution,

and the amount of any liability in respect of any guarantee for any of the items listed above. For the avoidance of doubt, an Intra-Group Transaction will not constitute "Indebtedness. For the avoidance of doubt, the foregoing (a) – (i) shall constitute "Indebtedness" whether or not it appears in the financial statements of the relevant Person as financial indebtedness.

"**Interest Costs**" of a Subsidiary of the Parent means all interest and other financing charges but not including any foreign exchange loss (whether, in each case, paid, payable or capitalised) payable in respect of Indebtedness incurred by the relevant Subsidiary during a Measurement Period as calculated in accordance with the then most recently published financial statements of the relevant Subsidiary prepared in accordance with Accounting Standards.

"**Interest Income**" of a Subsidiary of the Parent means all interest and other financing charges but not including any foreign exchange gains (whether, in each case, paid or payable) received by the relevant Subsidiary during a Measurement Period as calculated in accordance with the then most recently published financial statements of the relevant Subsidiary prepared in accordance with Accounting Standards.

"**Intra-Group Transaction**" means (a) any loan, guarantee, surety, reorganisation and any other transaction solely between the Parent and/or a Subsidiary of the Parent on the one hand and the Parent and/or another Subsidiary of the Parent on the other hand; (b) any transaction by the Parent and/or a Subsidiary of the Parent in favour of the Parent and/or another Subsidiary of the Parent, including the payment of dividends or the making of other distributions by a Subsidiary of the Parent to the Parent or another Subsidiary of the Parent; and (c) any guarantee by the Parent and/or a Subsidiary of the Parent of the obligations of any employee of the Parent and/or a Subsidiary of the Parent, provided in the case of this limb (c) that the aggregate amount of all such obligations does not exceed U.S.$30,000,000 at any time.

"**Investment Grade Rating**" means a rating equal to or higher than (i) Baa3 (or the equivalent) by Moody's (ii) BBB- (or the equivalent) by Standard & Poor's and (iii) BBB- (or the equivalent) by Fitch or in each case the equivalent thereof from any duly approved substitute Rating Agency.

"**Investment Grade Status**" means that the Notes have an Investment Grade Rating from any two Ratings Agencies.

"**Issue Date**" means 21 July 2011.

"**Leverage Ratio**" means as of any date of determination the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA of the Group after giving effect on a *pro forma* basis to:

(a) the incurrence of any Indebtedness the permissibility of which is then being measured, the incurrence or repayment of any other Indebtedness on or after the first day of the Measurement Period most recently ended prior to the event giving rise to the need to make such calculation and, in each case, the receipt and application of the proceeds therefrom; and

(b) the exclusion of Consolidated EBITDA associated with any Asset Sales or the inclusion of Consolidated EBITDA associated with any Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) on or after the first day of the Measurement Period most recently ended prior to the event giving rise to the need to make such calculation,

in each case, as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with Accounting Standards and provided, however, that any such calculation of Consolidated EBITDA in respect of paragraphs (a) and (b) above may only be so included or excluded if derived from (i) financial statements of, or relating to or including, such acquired or disposed entity, that have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the European Commission to be equivalent to IFRS as provided in the Accounts Regulation (without regard to any modifications to such principles that may be required after the date of such financial statements in connection with or pursuant to such determination); or (ii) such other financial statements and information of the acquired or disposed entity that the chief financial officer of the Parent believes in good faith to present fairly the financial position of the acquired or disposed entity so as to permit Consolidated EBITDA to be prepared on the basis of reasonable assumptions and estimates.

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (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).

"**Material Adverse Effect**" means a material adverse effect on:

(a) the business, results of operations, assets, financial condition or prospects of the Group taken as a whole; or

(b) the Issuer or any Guarantor's ability to perform its payment or other material obligations under the Conditions, Trust Deed or Deed of Guarantee; or

(c) the validity, legality or enforceability of the Conditions, Trust Deed or Deed of Guarantee or the rights or remedies of the Noteholders or Trustee under the Conditions, Trust Deed or Deed of Guarantee.

"**Material Subsidiary**" at any time means a Subsidiary of the Parent:

(a) whose EBITDA represents not less than 10 per cent. of the Consolidated EBITDA; or

(b) whose Production Assets represent not less than 10 per cent. of the Production Assets of the Group; or

(c) whose Mineral Rights represent not less than 10 per cent. of the Mineral Rights of the Group; or

(d) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Parent or of any Guarantor which immediately before the transfer was a Material Subsidiary.

In the case of (a), (b) and (c), as calculated by reference to the latest consolidated annual or, as the case may be, interim financial statements of the relevant Subsidiary and the latest consolidated annual or, as the case may be, interim financial statements of the Group, in each case prepared in accordance with the Accounting Standards, consistently applied.

"**Measurement Period**" means a period of six-months ending on 30 June or 31 December for which consolidated financial statements of the Group (or the other relevant Person in respect of which the particular calculation is to be made, as the case may be) prepared in accordance with Accounting Standards are available. For the avoidance of doubt, any non-balance sheet financial information for a Measurement Period ending on 31 December of any year shall be calculated by subtracting (a) the relevant information for the Measurement Period ending on 30 June of that year from (b) the equivalent information for that year.

"**Mineral Rights**" of an entity means the mineral rights of such entity determined in accordance with Accounting Standards.

"**Non-recourse Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any project if the recourse of the Person or Persons providing such financing is limited to the project financed (and the direct or indirect 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 direct or indirect owners of such project shall not result in such financing being considered recourse to such owners).

"**Opinion of Counsel**" means a written opinion from international legal counsel who is acceptable to the Trustee.

"**Permitted Lien**" means:

(a) any Lien over or affecting any asset acquired by the Parent or any of its Subsidiaries after the date hereof and subject to which such asset is acquired, if:

  (i) such Lien was not created in contemplation of the acquisition of such asset by the Parent or such Subsidiary, as the case may be; and

  (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by the Parent or such Subsidiary, as the case may be;

(b) any Lien over or affecting any asset of any company which becomes a Subsidiary of the Parent after the date hereof, where such Lien is created prior to the date on which such company becomes a Subsidiary of the Parent, if:

  (i) such Lien was not created in contemplation of the acquisition of such company; and

  (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company;

(c) any netting or set-off arrangement entered into by the Parent or any of its Subsidiaries in the normal course of its banking arrangements and/or financial for the purpose of netting debit and credit balances;

(d) any Lien arising by operation of law and in the ordinary course of business;

(e) any Lien in existence on the Issue Date;

(f) any Lien granted by a Subsidiary of the Parent in favour of the Parent or a Subsidiary of the Parent;

(g) 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;

(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 Parent has set aside in its books of account reserves to the extent required by Accounting Standards, 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 in each case not interfering in any material respect with the Core Business;

(j) (i) 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, in each case with respect to items described in (i), (ii) and (iii) above of this paragraph (x), 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) Liens arising pursuant to any title transfer or retention of title arrangement entered into by the Parent or any of its Subsidiaries in the ordinary course of business on the counterparty's standard or usual terms;

(l) Liens arising or created in connection with any Non-recourse Project Financing or arising or created in connection with any disposal permitted under Condition 4.3 provided that such Lien extends only to the assets being disposed of;

(m) any Lien on any property or assets of the Parent or any Subsidiary of the Parent 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 Parent or any of its 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 180 days after the acquisition or commencement of construction thereof, as the case may be;

(n) 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;

(o) 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);

(p) any Lien in respect of obligations arising under hedging agreements so long as the related Indebtedness is permitted to be incurred under these Conditions and any such hedging agreement is not speculative;

(q) any Lien created in connection with the raising of any Indebtedness for working capital or Trading Finance (as defined in Condition 4.4.2);

(r) any other Lien or Liens where the aggregate value of the assets subject to such Lien or Liens does not exceed 20 per cent of consolidated total assets as calculated by reference to the then latest consolidated accounts of the Group prepared in accordance with Accounting Standards (and for the avoidance of doubt, this paragraph (r) does not include any Lien created in accordance with paragraphs (a) to (q) above or (s) below; and

(s) any extension, renewal, replacement of or substitution for any Lien permitted by any of the preceding sub-Clauses (a) through (r); 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 Fair Market 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, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

"**Potential Event of Default**" means an event or circumstance which could with the giving of notice, the lapse of time, the issue of a certificate, a determination under these Conditions and/or the fulfilment of any other requirement provided for in Condition 9 become an Event of Default.

"**Production Asset**" of an entity means property, plant and equipment of such entity determined in accordance with Accounting Standards.

"**Product Delivery Contract**" means any contract for the sale or delivery of a Commodity or other products of the Group (including commission agency contracts, contracts for sale, transportation or exchange and utilisation and pooling declarations or agreements), entered into from time to time between the Parent or any of its Subsidiaries and any other Person.

"**Prospectus**" means the final prospectus relating to the Notes dated 19 July 2011.

"**Purchase Money Indebtedness**" means Indebtedness (a) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (b) incurred (including under any export credit facility) to finance the acquisition, repair, refurbishment, upgrade, construction, additions and improvements by the Parent or a Subsidiary of the Parent of such asset in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (i) any Lien arising in connection with any such Indebtedness shall be limited (a) in all cases to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, and (b) in the case of export credit facilities, to any shares of any entity holding such assets, any revenues generated by such assets and any other Lien the lenders under the relevant export credit facility may request, provided such Liens are permitted under Condition 4.1 (ii) such Indebtedness is incurred (other than in respect of Indebtedness with respect to any export credit facility) within 180 days after such acquisition of such assets and (iii) the aggregate principal amount of Purchase Money Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Parent or the relevant Subsidiary of the Parent (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development).

"**Rate of Interest**" means interest in U.S. Dollars on the outstanding principal amount of the Notes at the rate of 6.50 per cent. per annum.

"**Rating Agency**" means Fitch Ratings Ltd., Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc., or Moody's Investors Service Limited or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Parent, from time to time with the prior written approval of the Trustee.

"**Refinance**" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "**Refinanced**" and "**Refinancing**" shall have correlative meanings.

"**Refinancing Indebtedness**" means Indebtedness that Refinances any Indebtedness of the Parent or any Subsidiary of the Parent existing on the Issue Date or incurred in compliance with these Conditions, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(a) where the Indebtedness being Refinanced has a Stated Maturity that is later than the Stated Maturity of the Notes, such Refinancing Indebtedness has a Stated Maturity that is later than the Stated Maturity of the Notes;

(b) where the Indebtedness being Refinanced has a Weighted Average Life to Maturity that is later than the Weighted Average Life to Maturity of the Notes, such Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is greater than the Weighted Average Life to Maturity of the Notes;

(c) in all cases, such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(d) where the Indebtedness being Refinanced is subordinated in right of payment to the Notes and the Guarantees, such Refinancing Indebtedness is subordinated in right of payment to the Notes and Guarantees at least to the same extent as the Indebtedness being Refinanced.

"**Relevant Jurisdiction**" means (in the case of payment by the Issuer) Ireland or any political subdivision or any authority thereof or therein having power to tax or (in the case of payments by the Guarantors) the Russian Federation or any political subdivision or any authority thereof or therein having power to tax or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any of the Guarantors becomes subject in respect of payments made by it of principal or interest on the Notes.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

"**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 Exchange**" means the London Stock Exchange plc.

"**Subordinated Obligation**" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes and the Guarantees pursuant to a written agreement to that effect.

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 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 and/or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; (b) in the case of a partnership, joint venture, association, or other business/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 (c) if in accordance with Accounting Standards such entity would be consolidated with the first-named Person for financial statement purposes.

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates" or any replacement thereof.

"**U.S. GAAP**" means United States generally accepted accounting principles as in effect from time to time.

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(a) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into:

(b) the sum of the products obtained by multiplying:

  (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by;

  (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

FORM OF THE GUARANTEES

The following is the form of the deed of guarantee that the Initial Guarantors will enter into with the Trustee on or around the Issue Date:

This Deed is made on 21 July 2011 **between**:

(1) **JOINT STOCK COMPANY HOLDING COMPANY METALLOINVEST (the "Parent"), JOINT STOCK COMPANY LEBEDINSKIY MINING AND PROCESSING PLANT and JOINT STOCK COMPANY OSKOL ELEKTROMETALLURGICAL PLANT** (each an "**Initial Guarantor**", and together with the Parent, the "**Initial Guarantors**"); and

(2) **DEUTSCHE TRUSTEE COMPANY LIMITED** (the "**Trustee**").

Whereas:

(A) Metalloinvest Finance Limited (the "**Issuer**") has authorised the creation and issue of U.S.$750,000,000 in aggregate principal amount of 6.50 per cent. guaranteed notes due 2016 (the "**Notes**"). The Notes will be constituted by a trust deed between the Issuer and the Trustee dated 21 July 2011 (the "**Trust Deed**"); and

(B) The Guarantors have agreed hereunder to unconditionally, irrevocably, jointly and severally guarantee (with each other Guarantor (present or future)) to the Trustee the performance of all payment obligations of the Issuer under the Notes and the Trust Deed;

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Deed (including the recitals), unless otherwise defined herein capitalised terms shall have the meanings indicated in the terms and conditions of the Notes (the "**Conditions**") except where the context otherwise requires and except that, for the purposes of this Deed:

"**Additional Guarantor**" shall have the meaning in the Conditions;

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in Moscow, New York City and in the city where the specified office of the Principal Paying Agent is located;

"**Contracts**" means the Trust Deed, the Paying Agency Agreement, the Paying Agency Support Agreement this Deed, the Notes and the Conditions;

"**Guarantee**" shall have the meaning given to it in Clause 2.1; and

"**Guarantor**" means any of the Initial Guarantors and, to the extent that they have executed and delivered a deed of accession to this Deed in the form set out in the Schedule to this Deed and the Additional Guarantor (and "**Guarantors**" shall means each of them).

1.2 Interpretation

Unless the context or the express provisions of this Deed otherwise require, the following shall govern the interpretation of this Deed.

1.2.1 All references to "**Clause**" or "**sub-Clause**" are, unless otherwise stated, references to a Clause or sub-Clause of this Deed and all references to the "**Schedule**" are references to the Schedule to this Deed.

1.2.2 The terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean this Deed as a whole and not any particular part hereof.

1.2.3 Words importing the singular number include the plural and vice versa.

1.2.4 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.2.5 Where this Deed provides that the Trustee has the option to resolve that any "**Dispute**" be resolved by "**Proceedings**", the Trustee shall be entitled to rely and act on instructions received from Noteholders of at least one quarter in principal amount of the Notes then outstanding in exercising such option (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) which instructions shall be binding and conclusive on all Noteholders and the other parties.

1.2.6 "**approval not to be unreasonably withheld or delayed**" or like references shall mean, when used in this Deed, in relation to the Trustee that, in determining whether to give consent or approval, the Trustee shall have regard to the interests of Noteholders and any determination as to whether or not its approval is unreasonably withheld or delayed shall be made on that basis.

1.2.7 References in this Deed to "**reasonable**" or "**reasonably**" and similar expressions relating to the Trustee and any exercise of power, opinion, determination or other similar matter shall be construed as meaning reasonable or reasonably (as the case may be) having regard to, and taking into account the interests of, the Noteholders.

2 Guarantee

2.1 Guarantee

2.1.1 The Guarantors hereby unconditionally, irrevocably, jointly and severally guarantee (each a "**Guarantee**" and together the "**Guarantees**") to the Trustee the due and punctual payment by the Issuer of principal and/or interest and/or other amounts (if any) on the Notes or payable under the Trust Deed in full when and as the same shall become due and payable whether on the Repayment Date, on acceleration, in connection with prepayment, or otherwise. In case of the failure of the Issuer punctually to make any such principal and/or interest payment and/or other amount (if any) on the Notes or payable under the Trust Deed, the Guarantors hereby agree to cause any such payment to be made punctually when and as the same shall become due and payable, whether on the Repayment Date, on acceleration, in connection with a prepayment, pursuant to the Trust Deed or otherwise. The Guarantors hereby further agree to pay any and all expenses (including counsel fees and expenses and any applicable value added tax, turnover or similar tax charged in respect thereof) incurred by the Trustee in enforcing any rights it has under the Guarantees given in this sub-Clause 2.1.1. For the avoidance of doubt, all payments under the Guarantees and under this Deed will be made subject to Condition 8 and any undertakings given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed and Clause 4.2 of the Trust Deed.

2.1.2 As between the Guarantors, the Trustee and the Noteholders, but without affecting the Issuer's obligations under Notes, the Guarantors shall be liable under this Deed as if each Guarantor was the sole principal debtor and not merely a surety. Accordingly, each Guarantor shall not be discharged, nor shall its liability be affected, by anything that would not discharge it or affect its liability if it were the sole principal debtor (including (1) any time, indulgence, waiver or consent at any time given to the Issuer or any other person; (2) any amendment to any other provisions of this Deed, any Condition or any other provisions of the Trust Deed or to any security or other guarantee or indemnity; (3) the making or absence of any demand on the Issuer or any other person for payment; (4) the enforcement or absence of enforcement of this Deed, the Notes or of any security or other guarantee or indemnity; (5) the taking, existence or release of any security, guarantee or indemnity; (6) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any other person; or (7) the illegality, invalidity or unenforceability of or any defect in any provision of this Deed, the Notes or the Trust Deed or any of the Issuer's obligations under them).

2.1.3 Each of the Guarantors' obligations under this Deed are continuing and shall remain in full force and effect by way of continuing security until no sum remains payable under the Notes, this Deed and the Trust Deed. Furthermore, those obligations of each Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from any Guarantor or otherwise and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity. Each Guarantor irrevocably waives all notices and demands of any kind.

2.1.4 So long as any sum remains payable under the Notes or the Trust Deed:

(i) any right of any Guarantor, by reason of the performance of any of its obligations under this Clause 2, to be indemnified by the Issuer or to take the benefit of or to enforce any security or other guarantee or indemnity shall be exercised and enforced by such Guarantor only in such manner and on such terms as the Trustee may reasonably require or approve (such approval not to be unreasonably withheld or refused); and

(ii) any amount received or recovered by a Guarantor (a) as a result of any exercise of any such right under (i) above; or (b) in the dissolution, amalgamation, reconstruction, liquidation, bankruptcy, examinership, reorganisation or similar insolvency proceeding of the Issuer shall be held in trust for the Trustee and immediately paid to the Trustee or as it may direct.

2.1.5 Each Guarantor shall be subrogated to all rights of the Trustee against the Issuer and the other Guarantors in respect of any amounts paid by such Guarantor pursuant hereto; provided that any Guarantor shall not without the consent of the Trustee (such consent not to be unreasonably withheld or refused) be entitled to enforce, or to receive any payments arising out of or based upon or prove in any insolvency, winding-up or similar insolvency proceeding of the Issuer or any other Guarantor in respect of, such right of subrogation until such time as the principal or interest outstanding on the Notes and all other amounts due under this Deed and the Trust Deed have been paid in full. Furthermore, until such time as aforesaid any Guarantor shall not take any security or counter-indemnity from the Issuer in respect of such Guarantor's obligations under this Clause 2. For the avoidance of doubt, nothing in this sub-Clause 2.1.5 shall prevent the Issuer from making intra-Group loans to other members of the Group, providing that any rights of the Guarantors' against the Issuer pursuant thereto will be subordinated to the Trustee's rights against the Issuer.

2.1.6 If any payment received by the Trustee pursuant to the provisions of this Deed shall, on the subsequent bankruptcy, insolvency, corporate reorganisation or other similar event affecting the Issuer or any Guarantor, be avoided, reduced, invalidated or set aside under any laws relating to bankruptcy, insolvency, corporate reorganisation or other similar events, such payment shall not be considered as discharging or diminishing the liability of any Guarantor whether as guarantor, principal debtor or indemnifier and the guarantee and indemnity contained in this Clause 2 shall continue to apply as if such payment had at all times remained owing by the Issuer or the Guarantors and the Guarantors shall indemnify and keep indemnified the Trustee on the terms of this Deed and indemnity contained in this Clause 2.

2.1.7 Any amount received or recovered by the Trustee (otherwise than as a result of a payment by the Issuer in accordance with the Conditions in respect of any sum payable by the Issuer under the Notes) may be placed in a suspense account and kept there for so long as the Trustee thinks fit. The Trustee will apply amounts in the suspense account as provided in Clause 7 of the Trust Deed.

2.1.8 Each Guarantor shall on demand indemnify the Trustee against any cost, loss, expense or liability sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up, examinership, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by the Issuer under the Notes or the Trust Deed or any other Guarantor under this Deed and shall in any event pay to it on demand the amount as refunded by it.

2.1.9 If any moneys become payable by any Guarantor under this Deed and a claim has been made by the Trustee against such Guarantor, the Guarantors shall not (except in the event of the liquidation of the Issuer) so long as any such moneys remain unpaid, pay any moneys for the time being due from the Guarantors to the Issuer.

2.1.10 As separate, independent and alternative stipulations, each Guarantor unconditionally and irrevocably agrees for so long as any of the Notes remain outstanding as a primary obligation to indemnify the Trustee against any properly documented loss suffered by it as a result of any sum expressed to be payable by the Issuer pursuant to the Conditions and/or the Trust Deed not being paid on the date and otherwise in the manner specified in the Conditions and/or the Trust Deed or any payment obligation of the Issuer pursuant to the Conditions and or the Trust Deed

being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Trustee), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

2.1.11 The Guarantors further agree that, as between them, on the one hand, and the Trustee, on the other hand, (i) for the purposes of this Deed, the maturity of the obligations guaranteed by this Deed may be accelerated as provided in Condition 9, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby; provided, however, that if a court of competent jurisdiction determines that the Notes were improperly accelerated pursuant to the terms thereof, then the maturity of such obligations may not be accelerated for the purposes of this Deed; and (ii) in the event of any acceleration of such obligations (whether or not due and payable), such obligations shall forthwith become due and payable by the Guarantors for the purposes of this Deed.

2.1.12 Additional Guarantor

(i) The Guarantors and the Trustee acknowledge that, pursuant to the Conditions, the Parent has undertaken to procure that the Additional Guarantor to execute the Additional Guarantee (as defined in the Conditions) in favour of the Trustee no later than 50 days after the Issue Date. Upon not less than 15 days' prior notice from the Parent, in accordance with Condition 16, of the intention to appoint the Additional Guarantor, the Trustee will execute a deed of accession in the form set out in the Schedule to this Deed provided that:

(a) the Trustee will have the benefit of a guarantee from the Additional Guarantor, on substantially the same terms as this Deed as certified in writing by the requisite number of Authorised Signatories of the Parent, upon which the Trustee may rely without liability to any person for so doing;

(b) an opinion of counsel or tax advisors acceptable and in a form and substance satisfactory to the Trustee is provided and addressed to the Trustee, to the effect that the Noteholders will not recognise any income, gain or loss for tax purposes as a result of the addition of the Additional Guarantor, subject to customary exceptions, qualifications and limitations; and

(c) an opinion of counsel acceptable to the Trustee, in form and substance satisfactory to the Trustee is provided and addressed to the Trustee, stating that all legal conditions precedent in relation to such addition have been complied with and that the Additional Guarantee constitutes legal, valid and binding obligations of the Additional Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.

2.2 No double recovery

In no circumstance shall any Guarantor be liable under this Deed for any Loss that the Trustee has recovered in relation to or under the Trust Deed. For the purposes of this Clause Loss means any loss, liability, claim, demand or damage, charge or expense (including without limitation taxes and legal fees, costs and expenses).

2.3 Further Assurances

In the event that any Guarantor is required to make any payment under or in respect of this Deed, such Guarantor shall, at its own expense, at the time of making such payment, obtain any consents, approvals, authorisations or licences issued by the government of the country in which the Guarantor is incorporated or any political subdivision thereof or therein or any bank in such country necessary to make any such payment.

2.4 Guarantee Joint and Several

Each Guarantor acknowledges and agrees that all its obligations under or in relation to this Deed shall be joint and several with the obligations of all other Guarantors under this Deed.

2.5 Compliance with and incorporation by reference of the Trust Deed and Conditions

2.5.1 The provisions of the Trust Deed and the Conditions are incorporated by reference and shall be enforceable as if expressly set out herein.

2.5.2 Each party hereto undertakes that it shall comply with and perform and observe all the provisions of the Trust Deed and the Conditions which are applicable to it as if such party had been made an original party to the Trust Deed. The Conditions shall be binding on the Guarantors as if such Guarantors had been made an original party to the Trust Deed. The Trustee shall be entitled to enforce the obligations expressed to be imposed upon the Guarantors under the Notes and the Conditions as if such Guarantor had been made an original party to the Trust Deed.

2.6 Filing of this Deed

Each Guarantor shall file this Deed with any authority in the Russian Federation and Ireland, as may be required by applicable law and shall pay and bear all costs, expenses, fees and stamp duty payable on or in connection with such filing.

3 General

3.1 Waivers

No failure to exercise and no delay in exercising, on the part of the Trustee or the Guarantors, any right, power or privilege hereunder and no course of dealing between the Guarantors and the Trustee shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

3.2 Notices

3.2.1 All notices and other communications hereunder shall be made in writing and in English (by letter or fax) (and shall be deemed to have been duly given or made at the time of delivery) and shall be sent as follows:

(a) **Initial Guarantors**: if to the Initial Guarantors, to each of them at:

c/o Joint Stock Company Holding Company Metalloinvest
28 Rublevskoe shosse
Moscow 121609
Russia

Fax: +7 (495) 981 9992
Attention: Marina Gorshkova

(b) **Trustee**: if to the Trustee, to it at:

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Fax: +44 20 7547 6149
Attention: The Managing Director

or to such other address or fax number as any party may hereafter specify in writing to the other.

3.2.2 Any such communication shall take effect, in the case of a letter, at the time of delivery, in the case of a fax, when the relevant delivery receipt is received by the sender; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Deed which is to be sent by fax will be written legal evidence.

3.3 Assignment

3.3.1 This Deed shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Deed. Any reference in this Deed to any party shall be construed accordingly and, in particular, references to the exercise of any rights, benefits and discretions or the making of any determination (including forming an opinion) by, and the delivery of notices, certificates and information to, the Trustee, shall include references to the exercise of any such rights, benefits or discretions by or the making of such determination (including forming an opinion) by the Trustee (as Trustee).

3.3.2 None of the Guarantors shall assign or transfer all or any part of its rights or obligations hereunder to any other party or Person.

3.3.3 The Trustee may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Deed, unless a successor to the Trustee is appointed pursuant to Clause 25 of the Trust Deed.

3.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Guarantors in respect of any amount due in U.S. Dollars under this Deed shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. Dollars that the Trustee may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in U.S. Dollars that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Guarantors hereby agree to indemnify and hold harmless the Trustee against any deficiency in U.S. Dollars. Any obligation of the Guarantors not discharged by payment in U.S. Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount in U.S. Dollars that may be purchased exceeds that Due Amount the Trustee shall promptly pay the amount of the excess to the Guarantors.

3.5 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed.

3.6 Governing Law

This Deed and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

3.7 Jurisdiction

If any party considers that there is a dispute arising out of or in connection with this Deed, including a dispute as to the validity, existence or termination of this Deed or the consequences of its nullity and/or this Clause 3.7 (a "**Dispute**"), it may notify the other parties in writing of the existence of such Dispute (a "**Notice of Dispute**"). The parties irrevocably agree that any Dispute shall be resolved:

3.7.1 subject to Clause 3.7.2, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London

Court of Arbitration) (the "**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Clause. Any restriction in the LCIA Rules upon the nomination or appointment of an arbitrator by reason of nationality shall not apply to any arbitration commenced pursuant to this Clause. Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If the third arbitrator is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court.; or

3.7.2 at the option of the Trustee, by proceedings brought in the courts of England and Wales. If such option is exercised in relation to a Dispute: the parties agree that the courts of England and Wales have non-exclusive jurisdiction in relation to such Dispute; and each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England and Wales as the forum, and agrees not to claim that any such court is not a convenient or appropriate forum, to hear and determine such Dispute. If the Trustee wishes to exercise this option, it must do so by giving notice to the other parties to the Dispute before the constitution of the arbitral tribunal. For the avoidance of doubt, this Clause 3.7.2 is for the benefit of the Trustee alone and shall not limit the right of the Trustee to bring proceedings in any other court of competent jurisdiction.

3.8 Guarantors' Process Agent

Each Guarantor irrevocably appoints Law Debenture Corporate Services Limited (the "**Guarantors' Agent**"), now of Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

3.8.1 service upon the Guarantors' Agent shall be deemed valid service upon the relevant Guarantor whether or not the process is forwarded to or received by such Guarantor;

3.8.2 the Guarantors shall inform all other parties to this Deed, in writing, of any change in the address of the Guarantors' Agent within 28 days of such change;

3.8.3 if the Guarantors' Agent ceases to be able to act as a process agent or to have an address in England, each Guarantor irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Deed and to deliver to the other parties to this Deed within 14 days a copy of a written acceptance of appointment by the new process agent; and

3.8.4 nothing in this Deed shall affect the right to serve process in any other manner permitted by law.

3.9 Waiver of Immunity

To the extent that the Guarantors or the Trustee may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced with respect to this Deed, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under this Deed and/or to the extent that in any such jurisdiction there may be attributed to the Guarantors or the Trustee any such immunity (whether or not claimed), the Guarantors and the Trustee hereby irrevocably agree not to claim, and hereby waive, any such immunity.

3.10 Severability

In case any provision in or obligation under this Deed shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

3.11 Counterparts

This Deed may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

3.12 Non-Petition

No party to this Deed (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No party to this Deed shall have any recourse against any director or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer relating to the Notes, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

Schedule

Form of Guarantor Deed of Accession

To: **Deutsche Trustee Company Limited**

From: Joint Stock Company Mikhailovsky GOK (the "**Additional Guarantor**")

Dated:

Dear Sirs,

U.S.$750,000,000 6.50 per cent. Guaranteed Notes due 2016 (the "Notes") issued by Metalloinvest Finance Limited

We refer to the following documents:

"**Conditions**" means the terms and conditions of the Notes;

"**Deed of Guarantee**" mean the deed of guarantee dated as of 21 July 2011 under which the terms of the Trust Deed and the Conditions are incorporated by reference and made between Deutsche Trustee Company Limited (the "**Trustee**") and the Initial Guarantors named therein;

"**Paying Agency Agreement**" means the paying agency agreement dated 21 July 2011 and made between the Issuer, the Trustee and the agents named therein; and

"**Paying Agency Support Agreement**" means the paying agency support agreement dated 21 July 2011 and made between the Guarantors, the Trustee and the agents named therein.

Terms defined in the Deed of Guarantee shall bear the same meaning herein.

The Additional Guarantor wishes to become an Additional Guarantor as envisaged by Condition 6.4.

The Additional Guarantor is a Joint Stock Company duly organised under the laws of the Russian Federation.

The Additional Guarantor confirms that it has received from Issuer a true and up-to-date copy of the Deed of Guarantee, Trust Deed, Conditions and Paying Agency Support Agreement as at the date hereof.

The Additional Guarantor undertakes, upon its becoming a Guarantor, to perform and observe all the obligations expressed to be undertaken under the Deed of Guarantee, Trust Deed, Conditions and Paying Agency Support Agreement by a Guarantor and agrees that it shall be bound by the Deed of Guarantee, Trust Deed, Conditions and Paying Agency Support Agreement in all respects as if it had been an original party thereto.

The Additional Guarantor administrative details are as follows:

Address:

Fax.:

Telephone:

Contact Name:

This Deed of Accession and any non-contractual obligations arising out of or in connection with it shall be governed by, and shall be construed in accordance with, English law. If any party considers that there is a dispute arising out of or in connection with this Deed of Accession, including a dispute as to the validity, existence or termination of this Deed of Accession or the consequences of its nullity (a "**Dispute**"), it may notify the other parties in writing of the existence of such Dispute (a "**Notice of Dispute**"). The parties irrevocably agree that any Dispute shall be resolved:

(a) subject to paragraph (b) below, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of

International Arbitration) (the "**LCIA Rules**"), which rules are deemed to be incorporated by reference into this paragraph. Any restriction in the LCIA Rules upon the nomination or appointment of an arbitrator by reason of nationality shall not apply to any arbitration commenced pursuant to this paragraph. Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If the third arbitrator is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court; or

(b) at the option of the Trustee, by proceedings brought in the courts of England and Wales. If such option is exercised in relation to a Dispute: the parties agree that the courts of England and Wales have non-exclusive jurisdiction in relation to such Dispute; and each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England and Wales as the forum, and agrees not to claim that any such court is not a convenient or appropriate forum, to hear and determine such Dispute. If the Trustee wishes to exercise this option, it must do so by giving notice to the other parties to the Dispute before the constitution of the arbitral tribunal. For the avoidance of doubt, this paragraph (b) is for the benefit of the Trustee alone and shall not limit the right of the Trustee to bring proceedings in any other court of competent jurisdiction.

The Additional Guarantor irrevocably appoints Law Debenture Corporate Services Limited (the "**Process Agent**"), now of Fifth Floor, 100 Wood Street, London, EC2V 7EX, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

(a) service upon the Process Agent shall be deemed valid service upon the Additional Guarantor whether or not the process is forwarded to or received by the Additional Guarantor;

(b) the Additional Guarantor shall inform all other parties to this Deed of Accession, in writing, of any change in the address of the Process Agent within 28 days of such change;

(c) if the Process Agent ceases to be able to act as a process agent or to have an address in England, the Additional Guarantor irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Deed of Accession and to deliver to the other parties to this Deed of Accession within 14 days a copy of a written acceptance of appointment by the new process agent; and

(d) nothing in this Deed of Accession shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue by (i) in the case of Regulation S Notes, the Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "—Book-entry Procedures for the Global Notes". By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in the Rule 144A Global Note (if applicable). See "Transfer Restrictions". Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See "—Book-entry Procedures for the Global Notes". By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement. See "Transfer Restrictions".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions". A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note only, and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears at the Record Date on the register of Noteholders against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent, (or to or to the order of such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose). A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. So long as the relevant Global Note is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg, DTC or an Alternative Clearing System, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business Day**" means a day when Euroclear and Clearstream, Luxembourg is open for business.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes.

Meetings

The holder of each Global Note and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.$1,000 in principal amount of Note represented by the Global Notes.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "**clearing agency**" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Book-Entry Procedures for the Global Notes

For each series of Notes evidenced by both the Regulation S Global Note and the Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "—Settlement and Transfer of Notes".

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing the Regulation S Notes will have an ISIN, Common Code, and CFI number and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

The Rule 144A Global Note representing the Rule 144A Notes will have an ISIN, Common Code and CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "**banking organisation**" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "**clearing corporation**" within the meaning of the New York Uniform Commercial code and a "**clearing agency**" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "Exchange for Definitive Notes", DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, as the case may be (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement

date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee nor any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Issue Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Issue Date should consult their own advisors.

TAXATION

The following is a general description of the material Russian, Irish, United Kingdom and United States tax considerations relating to the Notes issued. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under such Notes and the consequences of such actions under the tax laws of those countries in light of their particular circumstances. This summary is based upon the law as in effect on the date of the Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

TAXATION IN THE RUSSIAN FEDERATION

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of payments under the Guarantees. The summary is based on the laws of the Russian Federation in effect on the date of the Prospectus (where these laws are subject to changes, which could occur frequently, at short notice and may have retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does it seek to address the availability of double tax treaty to and the eligibility of double tax treaty relief of any Noteholder in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief.

Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes, which may arise in their own particular circumstances. No representations with respect to the Russian tax consequences relevant to any particular Noteholder are made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance resulting in different interpretations and the inconsistent application thereof by various authorities in practice. Further, the substantive provisions of Russian tax law applicable to securities and financial instruments may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistent application than in jurisdictions with more developed capital markets and taxation systems. In practice, the interpretation of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by law. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "**Non-Resident Noteholder**" means:

- a Noteholder who is an individual not actually present in Russia for an aggregate period of 183 calendar days or more in a period comprised of 12 consecutive months (a "**Non-Resident Noteholder Individual**"); or
- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and disposes of the Notes otherwise than through a permanent establishment in Russia (a "**Non-Resident Noteholder Legal Entity**").

The presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education purposes. Currently, the Russian Tax Code is generally interpreted by both the tax authorities and taxpayers such that days of arrival should not be taken into account as opposed to days of departure when calculating the total number of days of presence of an individual in Russia, and we are aware of a court case confirming this position. However, there have been several incidents when the Ministry of Finance and the Federal Tax Service suggested a different methodology.

For the purposes of this summary the term "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, the definitions of "**Resident Noteholder**" and "**Non-Resident Noteholder**" in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice, however, the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full calendar year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by outcomes of tax controversy through the courts.

The Russian tax treatment of payments made by the Guarantors to the Trustee, acting on behalf of the Noteholders, under the Guarantee may affect the holders of the Notes. See "—Taxation of Payments under the Guarantees".

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realized by them in connection with the acquisition, ownership and/or disposition of the Notes.

Resident Noteholders should consult their own tax advisers with regards to the effect that the acquisition, holding and/or disposition of the Notes may have on their tax position.

Non-Resident Noteholders

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of payments of interest and repayment of principal received from the Issuer in respect of the Notes. A Non-Resident Noteholder generally should not also be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposition of the Notes outside of Russia provided that the proceeds of such redemption, sale or other disposition of the Notes are not received from a source within Russia. However, in the absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that the income from disposition of the Notes may be considered as received from Russian sources.

Taxation of Non-Resident Noteholder—Legal Entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholder—Legal Entities should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholder—Legal Entities.

Disposition of the Notes

In the event that the proceeds from the sale or other disposition of the Notes are received from a source within the Russian Federation, a Non-Resident Noteholder- Legal Entity should not be subject to withholding tax on any gain on the sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the sales proceeds attributable to accrued interest on the Notes. The portion of sales proceeds attributable to accrued interest may be distinguished from the total gain and taxed at the rate of 20%, even if the disposal results in a capital loss. Such withholding tax may be reduced or eliminated under the terms of an applicable double tax treaty depending on the residence of the Non-Resident Noteholder—Legal Entity.

Taxation of Non-Resident Noteholder—Individuals

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholder Individuals may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals

as a result of acquisition of securities. If the acquisition price of the Notes is below the lower margin of the fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to the Russian personal income tax at the rate of 30% (arguably is subject to reduction or elimination under the applicable double tax treaty).

Under the Russian tax legislation, the taxation of income of Non-Resident Noteholder—Individuals will depend on whether this income would be qualified as received from Russian or non-Russian sources. Although the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of acquisition transaction, the location of the Issuer or other similar criteria.

Disposition of the Notes

Subject to any available tax treaty relief, if the receipt of any proceeds from the disposition of the Notes by a Non-Resident Noteholder Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30%. The tax will apply to the gross amount of sales proceeds received upon disposition of the Notes decreased by the amount of any available cost deductions (including the original purchase value of the Notes). There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the tax authorities, the deduction will be disallowed and the tax will apply to the gross amount of sales proceeds.

Under certain circumstances if the disposal proceeds are paid to a Non-Resident Noteholder Individual by a licensed broker or an asset manager that is a Russian legal entity, or an organisation, or any other person (including a foreign company with an economically autonomous subdivision in Russia and an individual entrepreneur located in Russia), who carries out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder Individual, the applicable personal income tax at the rate of 30% should be withheld at source by such person who will be considered as the tax agent. The amount of tax withheld will be calculated after taking into account the documented deductions for the original purchase cost and related expenses on the purchase, holding and sale of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-Resident Noteholder Individual. Where a sale is made to other legal entities, organisations or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder Individual would be required to file a 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 expenses, confirmed by the supporting documentation. The applicable tax will then have to be paid by the Non-Resident Noteholder Individual on the basis of the filed tax return. Under certain circumstances gains received and losses incurred by the Non-Resident Noteholder Individual as a result of disposition of the Notes and other securities occurring within the same year may be aggregated which would affect the total amount of tax payable by the Non-Resident Noteholder Individual in Russia.

There is a risk that any gain derived by a Non-Resident Noteholder Individual from the disposition of the Notes may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and roubles. There is also some uncertainty regarding tax treatment of the portion of the sales proceeds derived by a Non-Resident Noteholder Individual from Russian sources in connection with disposition of the Notes that is attributable to accrued interest income on the Notes. The tax authorities could argue that the portion of sales proceeds attributable to interest income, provided that these sales proceeds are derived from Russian sources, should be subject to Russian personal income tax at the rate of 30%, even if the disposition of the Notes results in a capital loss. This rate however could be reduced or eliminated under provisions of an applicable double tax treaty relating to interest.

Non-Resident Noteholder Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposition of the Notes, including the receipt of sales proceeds from a source within Russia upon the disposition of the Notes.

Double 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 that allow to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholders from Russian sources, including income relating to the disposition of the Notes (if this income is treated as income from Russian sources). In order to obtain the benefit available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements being in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

Currently, a Non-Resident Noteholder Legal Entity will need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of the payment of income. However, the payer of income in practice may request additional documents confirming the eligibility of the Non-Resident Noteholder Legal Entity to the benefits of the double tax treaty. The certificate should confirm that the respective Non-Resident Noteholder Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalized and needs to be renewed on an annual basis. A notarized Russian translation of the certificate may be required. There can be no assurance however that advance treaty relief will be available in practice.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder Individual must provide the Russian tax authorities with a tax residency certificate issued by the competent authorities in 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 treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the applicable double tax treaty. Technically, these requirements mean that the Non-Resident Noteholder Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain the advance treaty relief in relation to income derived from Russian sources, as it is unlikely that the supporting documentation required for the treaty relief can be provided to the Russian tax authorities and, consequently, approval from the latter could be obtained, before the receipt of income by the Non-Resident Noteholder Individual occurs.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder Legal Entity was withheld at source, despite the right of such Non-Resident Noteholder Legal Entity to rely on benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced rate in relation to such income, a claim for a refund of the tax that was excessively withheld at source can be filed with the Russian tax authorities within three years following the tax period in which the tax was withheld.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder Individual was withheld at source despite the right of this Non-Resident Noteholder Individual to rely on benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced rate in relation to such income, a claim for a refund of tax which was excessively withheld can be filed with the Russian tax authorities within one year following the year in which the tax was withheld.

The Russian tax authorities may in practice require a wide variety of documentation confirming a right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Tax Code.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by the Non-Resident Noteholder upon the acquisition, holding and disposition of the Notes.

Taxation of Payments under the Guarantees

In general, payments under a guarantee by a Russian entity to a Non-Resident Noteholder Legal Entity should not be subject to Russian withholding tax to the extent such payments do not represent Russian source income.

Payments under the Guarantees related to interest on the Notes are likely to be characterised as Russian source income. Accordingly, such payments should be subject to Russian withholding tax at the rate of 20%, or such other rate as may be in force at the time of payment, in the event that a payment under the Guarantees is made to a Non-Resident Noteholder Legal Entity. There is some residual uncertainty regarding the treatment of the payment under the Guarantees related to the principal amounts due under the Notes. There is a potential risk, albeit small, that such payments may be characterised as Russian source income taxed at the rate of 20% Russian withholding tax may be reduced or eliminated under the terms of the applicable double tax treaty. The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from disposal of the Notes.

Payments under the Guarantees, as the case may be, to a Non-Resident Noteholder Individual, may be subject to Russian tax as Russian-source income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Notes, would be subject to a 30% tax, which may be withheld at the source or payable on a self-assessed basis. This tax may be subject to relief under the terms of an applicable double tax treaty. The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from the disposal of the Notes.

Pursuant to the Trust Deed payments under the Guarantees that relate to interest and principal on the Notes will be paid to the Trustee. It is not expected that the Trustee would be able to benefit from a double tax treaty between Russia and the country of residence of the Trustee in such case. In such cases, there can be no assurance that the Non- Resident Noteholders will be able to obtain reduction of or relief from withholding tax under double taxation treaties entered into between their countries of residence and Russia as well, where such treaties exist and to the extent they are applicable given that the Noteholders will not be the immediate recipients of the payments under the Guarantees. Moreover, because of uncertainties regarding the form and procedures for providing the documentary proof for treaty relief, the Non-Resident Noteholder Individual in practice would be unlikely able to obtain advance treaty relief, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

If payments under the Guarantees become subject to the Russian withholding tax (as a result of which the Guarantors would have to reduce payments made under the Guarantees by the amount of tax withheld), the Guarantors will be obliged (subject to certain conditions) to increase payments under the Guarantees as may be necessary so that the net payments received by the Trustee acting on behalf of the Noteholders will be equal to the amounts it would have received in the absence of such withholding.

It is currently unclear whether the provisions obliging the Guarantors to gross up payments under the Guarantees will be enforceable under the Russian law. There is a risk that gross up for withholding tax will not take place and that the payments made by the Guarantors under the Guarantees will be reduced by the amount of the Russian income tax withheld by the Guarantors at the rate of 20% (in the case of Non-Resident Noteholder— Legal Entities) or at the rate of 30% (in the case of Non-Resident Noteholder Individuals), or such other rate as may be in force at the time of payment.

Payments under the Guarantees should not be subject to Russian VAT.

Taxation in Ireland

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes thereon as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20%), is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where certain exemptions apply, in particular, so long as the interest paid on the relevant Note falls within one of the following categories:

Interest paid on a quoted Eurobond

A quoted Eurobond is a security that is issued by a company (such as the Issuer), is listed on a recognized stock exchange (such as the London Stock Exchange) and carries a right to interest. Provided that the Notes are interest bearing and are listed on a recognized stock exchange (such as the London Stock Exchange), interest paid on them can be paid free of withholding tax provided the person by or through whom the payment is made is not in Ireland; or the payment is made by or through a person in Ireland and either:

(i) the Note is held in a clearing system recognized by the Irish Revenue Commissioners; (Euroclear and Clearstream, Luxembourg are, amongst others, so recognized); or

(ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form.

Thus, so long as the Notes continue to be quoted on the London Stock Exchange and are held in DTC, Euroclear and/or Clearstream, Luxembourg, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognized clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland.

Interest paid to a person resident in a relevant territory

If, for any reason, the quoted Eurobond exemption referred to above ceases to apply, interest payments may still be made free of withholding tax provided that the recipient is not a company which receives the interest in connection with a trade or business carried on by it through a branch or agency in Ireland and:

(i) the Issuer remains a "qualifying company" as defined in section 110 of the Taxes Consolidation Act, 1997 ("**TCA**") and the Noteholder is a person which is resident in a relevant territory at the time of the payment. A relevant territory is an EU Member State (other than Ireland) or a country with which Ireland has a double taxation agreement in force by virtue of section 826(1) of the TCA or that is signed and which will come into force once all ratification procedures set out in section 826(1) TCA have been completed ("**Relevant Territory**"), or

(ii) the interest is paid in the ordinary course of the Issuer's business and the Noteholder is a company which is either (A) resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or (B) in respect of the interest, exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed.

The Issuer must be satisfied that the respective terms of the exemptions are satisfied. The test of residence in each case is determined by reference to the law of the Relevant Territory in which the Noteholder claims to be resident. For other holders of Notes, interest may be paid free of withholding tax if the Noteholder is resident in a double tax treaty country and under the provisions of the relevant treaty with Ireland such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realized by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax and Levies

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. First, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes that does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, the charge to the universal social charge.

Capital Gains Tax

A holder of Notes will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25% if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e., if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) to the Irish Stamp Duties Consolidation Act, 1999 assuming the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

VAT

There should be no Irish value added tax payable in respect of the payments in consideration for the issue(s) of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

TAXATION IN THE UNITED KINGDOM

The following, which applies only to persons who are beneficial owners of the Notes, is a general summary of the Issuer's understanding of current United Kingdom tax law and Her Majesty's Revenue and Customs' ("HMRC") published practice as applied in England and Wales as at the date hereof relating to certain aspects of United Kingdom taxation. The following does not constitute a complete analysis of all United Kingdom tax considerations relating to the Notes (for example, the following does not deal with the United Kingdom tax treatment of any original issue discount on the Notes) and some aspects may not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The following does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in the United Kingdom or any other jurisdiction should seek their own professional advice.

Interest and Guarantees

Payments of interest on the Notes may be made without withholding on account of United Kingdom tax. Payments in respect of the Guarantees should be made without withholding on account of United Kingdom tax, on the basis that payments in respect of the Guarantees are not expected to have a United Kingdom source.

Where the Notes are to be, or may fall to be, redeemed at a premium, then any such element of premium may constitute a payment of interest. Such payments of interest are not expected to be subject to United Kingdom withholding tax and are subject to the reporting requirements outlined below.

Persons in the United Kingdom through whom interest is paid or credited to, or by whom interest is received on behalf of, an individual Noteholder (whether resident in the United Kingdom or elsewhere) may be required to provide certain information to HMRC regarding the payment and the Noteholder concerned. "**Interest**" for this purpose includes any amount to which a person holding a deeply discounted security as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 is entitled on redemption of the security. However, HMRC published practice indicates that in practice no information will be required to be provided in respect of such redemption amounts for the tax year 2011-2012. HMRC may in certain circumstances communicate information to the tax authorities of other jurisdictions.

See also the paragraph below entitled "EU Directive on the Taxation of Savings Income", which describes obligations to provide reports of or withhold tax from payments of savings income under the EU Savings Tax Directive (as defined in that paragraph).

Stamp duty and stamp duty reserve tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on issue of the Notes in registered form.

No United Kingdom stamp duty reserve tax is payable on transfer of the Notes on the basis that they will not be registered in a register kept in the United Kingdom by or on behalf of the Issuer or on their issue into a clearance system.

No United Kingdom stamp duty is payable on transfer of the Notes once they are issued into a clearing system, where such transfer is effected in book entry form in accordance with the procedures of the clearance system and not by written instrument of transfer and where there is no written agreement to transfer an equitable interest only in the Notes. Any such instrument of transfer or agreement to transfer may be chargeable to United Kingdom stamp duty if it is executed in the United Kingdom or relates to any property situate in, or to any matter or thing done or to be done, in the United Kingdom.

EU Directive on the Taxation of Savings Income

Under Council Directive 2003/481/EC on the taxation of savings income (the "**EU Savings Directive**"), each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other EU Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the recipient of the interest payment must be allowed, upon meeting certain conditions, to elect that certain provision of information procedures should be applied instead of withholding. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner resident in, or certain limited types of entity established in, an EU Member State. In addition, the EU Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in an EU Member State to an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If an amount of, or in respect of, tax were to be withheld from a payment under a Note pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meetings of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. See Condition 8 in "Terms and Conditions of the Notes". The Issuer is, however, required to maintain a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive or any other such Directive. See Condition 7.6 in "Terms and Conditions of the Notes".

United States Federal Income Taxation

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and use the U.S. dollar as their functional currency. This discussion is not a complete description of all U.S. tax considerations relating to the purchase, ownership and disposition of Notes that may be relevant to particular purchasers. It does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers in currencies and securities, traders that elect to mark-to-market, insurance companies, investors liable for the alternative minimum tax, U.S. expatriates, tax-exempt entities or persons holding Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment outside of the United States. It does not consider U.S. state or local tax matters.

THE FOLLOWING STATEMENTS ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NOTES UNDER THE LAWS OF THE REPUBLIC OF IRELAND, THE RUSSIAN FEDERATION, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of a Note that is for U.S. federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity created or organized under the laws of the United States or its political subdivisions, (iii) a trust subject to the

control of a U.S. person and the primary supervision of a U.S. court or a trust that has a valid election in effect to be treated as a United States person (within the meaning of the Code) or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

The tax treatment of a partner in a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) that holds the Notes generally will depend upon the status of the partner and the activities of the partnership. A partnership that acquires the Notes should consult its own tax advisors about the tax consequences for its partners.

Characterisation of the Notes

No authority directly addresses the U.S. federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service ("**IRS**") as to their characterisation for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes. This characterization is binding on all U.S. Holders unless the holder discloses on its U.S. federal income tax return that it is treating the Notes in a manner inconsistent with the Issuer's characterization. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this treatment. Alternative characterisations include treatment of the Notes as beneficial ownership of the relevant Loan or as equity in the Issuer, which is a passive foreign investment company. The following discussion assumes that the Notes will be characterized as indebtedness for U.S. federal income tax purposes. Prospective investors should seek advice from their own tax advisors as to the consequences to them of investing in the Notes, including their treatment for U.S. federal income tax purposes.

Interest

A U.S. Holder must include stated interest on the Notes (including the amount of foreign taxes withheld, if any) in gross income in accordance with its regular method of tax accounting. Interest on the Notes, including any additional amounts paid on account of withholding tax, will be ordinary income from sources outside the United States.

If the Notes are issued at an original issue discount ("**OID**"), a U.S. Holder must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. The Notes will have been issued with OID if their stated redemption price exceeds their issue price by as much as 0.25% multiplied by the number of complete years to maturity. The OID will be the amount by which the stated redemption price at maturity exceeds the issue price. The issue price of the Notes is the initial offering price at which a substantial amount of the Notes are sold to the public (excluding sales to brokers or similar persons). The stated redemption price at maturity is the sum of all payments due on a Note other than payments of qualified stated interest. The redemption premium that the Issuer must pay on a Change of Control Event is not part of the stated redemption price because the Issuer believes that a change of control is a remote possibility. OID will be ordinary income from sources outside of the United States.

A U.S. Holder may elect to include in gross income all yield on a Note (including de minimis OID) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made, and it may not be revoked without the consent of the IRS.

A U.S. Holder of Notes eligible for benefits under the income tax treaty between Ireland and the United States may claim an exemption from or reduction in any Irish interest withholding tax. Each U.S. Holder should consult its own tax advisor about its eligibility for the exemption. A U.S. Holder may claim a deduction or a foreign tax credit (subject to generally applicable limitations) only for tax withheld at the appropriate rate.

As discussed above in "Certain Tax Considerations in the Russian Federation—Taxation of the Notes—Non-Resident Noteholders," the possible imposition of Russian taxes on payments on and proceeds from the disposition of the Notes (and on discount at purchase) is uncertain. Because the Notes are issued by an Irish company, it is also uncertain whether U.S. Holders that are eligible for benefits under the income tax treaty between the Russian Federation and the United States would be able to claim exemption from or a reduced rate of Russian tax under the treaty. Subject to applicable limitations, a U.S. Holder may claim a deduction or a foreign tax credit only for tax withheld at the appropriate rate. U.S. Holders should consult their own tax advisors about their eligibility for exemption from, and ability to credit or deduct, Russian tax, if any, imposed on the Notes.

Payments under the Guarantee in respect of stated interest due on the Notes should be treated the same as payments of stated interest. All other payments under the Guarantee should be treated, first as payments of accrued OID, if any, and then as payments in partial or full redemption of the Notes. As discussed above in "Taxation in the Russian Federation—Taxation of Payments under the Guarantee" payments made by the Guarantor under the Guarantee to Noteholders who are not Russian residents may become subject to Russian withholding taxes. In this circumstance, the Guarantor may become liable for the payment of Additional Amounts to U.S. Holders (see "Terms and Conditions of the Notes—Taxation") so that U.S. Holders receive the same amounts they would have received had no Russian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Russian taxes withheld by the Issuer with respect to a Note, and as then having paid over the withheld taxes to the Russian taxing authorities.

Disposition

A U.S. Holder generally will recognise gain or loss on a sale, redemption or other disposition of a Note in an amount equal to the difference between the U.S. dollar value of the amount realised (less any accrued but unpaid interest, which will be taxable as interest) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will be the amount paid for the Note increased by OID included in the U.S. Holder's income and reduced by any payments other than stated interest.

Gain or loss on disposition of a Note generally will be U.S. source capital gain or loss. Gain or loss will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year. A noncorporate U.S. Holder's long-term capital gain may be taxed at lower rates. Deductions for capital losses are subject to limitations.

In the event a Russian tax were imposed on proceeds from the disposition of Notes, U.S. Holder of Notes eligible for benefits under the income tax treaty between the Russian Federation and the United States may not be eligible to claim an exemption from Russian tax. A U.S. Holder may claim a deduction or a foreign tax credit (subject to generally applicable limitations) only for tax withheld at the appropriate rate. Gain realized on the disposition of the Note will be treated as U.S. source income. Accordingly, a holder may not be able to claim a credit for any Russian tax upon a disposition of a Note unless it has other foreign source income.

Further Notes

Further Notes issued in additional offerings by the Issuer may not be fungible for U.S. federal income tax purposes with the Notes issued in the original offering. Whether Further Notes will be fungible depends on whether each issuance of Further Notes is a qualified reopening of the offering. This determination will depend on the date when the Further Notes are issued, the yield of the outstanding Notes at that time (based on their fair market value), whether the outstanding Notes were issued with OID and whether any outstanding Notes are publicly traded or quoted at the time of the new issuance. If issuance of the Further Notes is not a qualified reopening, the Further Notes may have OID. Unless the Further Notes can be distinguished from the Notes, the market value of the previously outstanding Notes may be adversely affected.

Reporting and Backup Withholding

Payments of interest, accruals of OID and proceeds from the sale, redemption or other disposition of a Note may be reported to the U.S. Internal Revenue Service unless the holder establishes a basis for exemption. Payments to non-U.S. Holders that provide certification of foreign status generally are exempt from information reporting. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or to report its interest and dividend income. A holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding tax and a refund of any excess.

Recently enacted legislation will require certain U.S. Holders to report to the Internal Revenue Service information with respect to Notes not held through an account with a financial institution. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their own tax advisors regarding the possible implications of this new legislation for their investment in Notes.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

TRANSFER RESTRICTIONS

Each purchaser of the Securities within the United States pursuant to Rule 144A, by accepting delivery of the Prospectus, will be deemed to have represented, agreed and acknowledged that:

(a) It is (i) a QIB, (ii) acquiring such Securities for its own account or for the account of one or more QIBs, (iii) not acquiring such Securities with a view to further distribute such Securities, and (iv) aware, and each beneficial owner of such has been advised, that the sale of such Securities to it is being made in reliance on Rule 144A.

(b) It understands that such Securities have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) pursuant to a registration statement that has been declared effective under the Securities Act; (ii) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB; (iii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (iv) pursuant to Rule 144 under the Securities Act (if available); or (v) pursuant to any other available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Securities offered and sold hereby in the manner set forth in paragraph (a) are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of such Notes.

(d) It understands that any offer, sale, pledge or other transfer of the Securities made other than in compliance with the above-stated restrictions may not be recognised by the Issuer.

(e) It understands that such Securities, unless otherwise agreed between the Issuer, the Parent and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED

(f) If it is acquiring any Securities for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Issuer, the Parent, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(f) It understands that the Notes offered in reliance on Rule l44A will be represented by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that the sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SUBSCRIPTION AND SALE

BNP Paribas, Credit Suisse Securities (Europe) Limited, ING Bank N.V., London Branch, J.P. Morgan Securities Ltd., Merrill Lynch International, Société Générale, TD Investments Limited, The Royal Bank of Scotland plc and VTB Capital plc (together, the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 19 July 2011, severally and not jointly nor jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent. of their principal amount in the following amounts:

Joint Lead Manager	Principal Amount of Notes (U.S.$)
BNP Paribas	83,333,000
Credit Suisse Securities (Europe) Limited	83,334,000
ING Bank N.V., London Branch	83,333,000
J.P. Morgan Securities Ltd.	83,334,000
Merrill Lynch International	83,333,000
Société Générale	83,333,000
TD Investments Limited	83,333,000
The Royal Bank of Scotland plc	83,333,000
VTB Capital plc	83,334,000
Total	**750,000,000**

The Joint Lead Managers and Guarantors have also entered into a Subscription Support Agreement dated 19 July 2011 pursuant to which the Guarantors have agreed to support certain of the Issuer's obligations under the Subscription Agreement (the "**Subscription Support Agreement**").

The Issuer, failing whom the Guarantors, has agreed to pay to the Joint Lead Managers a combined management, underwriting and selling commission of U.S.$4,687,500. In addition, the Issuer, failing whom the Guarantors, have agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement and the Subscription Support Agreement entitle the Joint Lead Managers to terminate such agreements it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantors have in the Subscription Agreement and the Subscription Support Agreement agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes, including liabilities under the Securities Act.

The Joint Lead Managers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Parent and its affiliates (including its shareholders, the Issuer and the Guarantors) and for which they may have received or may in the future receive customary fees.

Each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Parent and its affiliates (including its shareholders, the Issuer and the Guarantors) in the ordinary course of their respective businesses. Where any of the Joint Lead Managers or their respective affiliates have a lending relationship with the Parent or its affiliates (including its shareholders, the Issuer and the Guarantors), they routinely hedge their credit exposure consistent with their customary risk management policies. Typically, the Joint Lead Managers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in relevant securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

No Securities Commission Approval

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

General

Each Joint Lead Manager, the Issuer and the Guarantors severally and not jointly nor jointly and severally has agreed that it has in all material respects (to the best of its knowledge and belief) complied and will comply with

all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes. Each Joint Lead Manager, the Issuer and the Guarantors severally and not jointly nor jointly and severally undertakes that it will use its reasonable efforts not to, directly or indirectly, offer or sell any Notes in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

United States

The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Securities are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Securities within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager severally and not jointly nor jointly and severally has represented, warranted and undertaken that:

(a) **Financial promotion**: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and the Guarantors; and

(b) **General compliance**: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Joint Lead Managers has severally and not jointly nor jointly and severally agreed that the Notes 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.

Ireland

Each Joint Lead Manager severally and not jointly nor jointly and severally has represented, warranted and undertaken that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity than with the provisions of the Irish European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Irish Central Bank Acts 1942—2010 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank of Ireland; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

GENERAL INFORMATION

Authorisations, Approvals and Consents

The Issuer and Initial Guarantors have each obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the Guarantees. The issue of the Notes was authorised by resolution passed on 15 July 2011 by the board of directors of the Issuer. Each Initial Guarantee was authorised by resolutions of the general shareholders' meeting of the respective Initial Guarantor.

Additional Guarantee

The Parent has undertaken to procure the Additional Guarantor provide an unconditional and irrevocable guarantee of the Notes no later than 50 days from the Issue Date. If the Additional Guarantor fails to execute and deliver the Additional Guarantee no later than 50 days from the Issue Date, the Noteholders may require the Issuer to redeem all of the Notes tendered at a price per Note equal to 101 per cent. of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, up to but excluding the date of redemption. In the event the Issuer makes such an offer, each Noteholder may tender all or any of the Notes held by it. See "Terms and Conditions of the Notes—Redemption at the Option of the Noteholders on the failure to procure the Additional Guarantee".

Independent Auditors

The consolidated financial statements of JSC Holding Company Metalloinvest as of and for the years ended 31 December 2010 and 2009 included in this Prospectus, have been audited in accordance with International Standards on Auditing by ZAO PricewaterhouseCoopers Audit, independent accountants, of 10 Butyrsky Val, Moscow 125047, Russian Federation, as stated in their report appearing elsewhere in this Prospectus.

With respect to the unaudited condensed consolidated interim financial information of JSC Holding Company Metalloinvest as of and for the three months ended 31 March, 2011, included in this Prospectus, ZAO PricewaterhouseCoopers Audit has reviewed this information in accordance with International Standard on Review Engagements 2410, applicable to the review of interim financial information, as stated in their review report appearing elsewhere in this Prospectus.

The auditors of the Issuer are PricewaterhouseCoopers of 1 Spencer Dock, North Wall Quay, Dublin 1, Ireland, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

Listing

The Prospectus has been approved by UK Listing Authority, as competent authority under the FSMA. Application has been made to the Stock Exchange for the Notes to be admitted to the Official List and to trading on the Market.

It is expected that the listing of the Notes on the Official List and the admission of the Notes to trading on the Market will take place on or about 22 July 2011, subject to the issuance of the Global Notes. Prior to such listing and admission, however, the Stock Exchange will permit dealings in the Notes in accordance with its guidelines. Transactions will normally be effected for delivery on the third business day after the transaction.

Yield and total expenses

The yield of the Notes is 6.50 per cent. on a annual basis. Total expenses related to the admission to trading of the Notes were £7,175.

Clearing systems

The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg. For the Regulation S Notes, the International Security Identification Number (ISIN) is XS0650962185, the Common Code is 065096218 and the CFI Code is DBZXFR. For the Rule 144A Notes, the ISIN is US59125QAA67, the Common Code is 065098032 and the CUSIP number is 59125Q AA6. The address of DTC is 55 Water Street, New York, New York 10041-10099, United States of America. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.

No significant or material change

Save as described with respect to the Group's entry into the PXF Facility and its acquisition of an interest in Norilsk Nickel in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments and Outlook", there has been no significant change in the financial or trading position of either the Parent or the Group since 31 March 2011, the end of the last financial period for which financial information has been published. There has been no significant change in the consolidated financial or trading position of Issuer since its date of incorporation on 27 May 2011.

There has been no material adverse change in the prospects of either the Parent or the Group since 31 December 2010, the date of the most recent annual audited financial information for the Parent and the Group. There has been no material adverse change in the prospects of Issuer since its date of incorporation on 27 May 2011.

Legal proceedings

None of the Issuer, the Guarantors or any member of the Group is or has been engaged in nor, so far as the Issuer, the Guarantors or any member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of the Prospectus, a significant effect on the Issuer's, the Guarantors' or the Group's financial position or profitability.

Documents available for inspection

For the life of the Prospectus, copies of the following documents may be inspected free of charge in hardcopy at the offices of the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

(a) the memorandum and articles of association of the Issuer;

(b) the charter of each Guarantor;

(c) the Deed of Guarantee;

(d) the Prospectus;

(e) the audited consolidated financial statements of the Parent for the years ended 31 December 2010 and 2009, and the auditor's reports thereon;

(f) the unaudited condensed consolidated interim financial information of the Parent for the three months ended 31 March 2011, and the auditor's review report thereon; and

(g) the Trust Deed.

GLOSSARY

Bars — Long steel products that are rolled from billets. Merchant bar and reinforcing bar, or rebar, are two common categories of bars, where merchants include rounds, flats, angles, squares and channels that are used by fabricators to manufacture a wide variety of products such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete structures.

Beneficiation — The treatment of mined material to make it more concentrated or richer. Uses the process of crushing, grinding, and often froth flotation to remove waste rock from ore. The metal content is increased as the waste is removed.

Bentonite — An absorbent aluminium phyllosilicate, generally impure clay consisting mostly of montmorillonite sometimes used in making slurry walls.

Billet — A semi-finished steel product with a square cross section up to 150mm x 150mm. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products. Semi-finished products above 150mm x 150mm are called blooms.

Blast furnace — A furnace used in the integrated metallurgical process in which iron ore in the form of sinter is melted down under a hot air flow (enriched with oxygen), using coal in the form of coke as a heating and reducing agent in the chemical process. As a result, a liquid hot metal is produced, also called pig iron.

Blooms — See “Billet”.

CPT — A shipping term meaning that the seller pays for the freight of the goods to a designated destination while the buyer pays for the insurance. The passing of risk occurs when the goods have been delivered into the custody of the first carrier. This term can be used for all modes of transport, including multimodal transport.

Coils — Steel that has been wound.

Coke — A fuel obtained by the pyrolysis of coal in coke ovens and used as a reducing agent for iron ore in the blast furnace.

Coke breeze — A lightweight aggregate stone formed by a refractory process.

Coking coal — Coal used for making coke, used to make steel.

Concentrate — Concentrate is similar to fines but the material has undergone beneficiation to increase the iron content. Beneficiation may involve washing, flotation, or in the case of magnetite, magnetic separation.

Continuous casting — The process pursuant to which molten steel is cooled into semi-finished products such as billets, blooms and slabs. The molten steel is poured at a steady rate from a ladle into a bottomless mould. As the molten steel enters the water-cooled mould, it starts to cool into a pliable solid that can then be cut into required lengths.

Cost, Insurance and Freight, or CIF — A shipping term meaning that the seller has the responsibility for the payment of freight to carry the goods to a designated destination as well as the responsibility to provide cargo insurance at minimum coverage against the buyer’s risk of loss or damage to the goods during transport. This term is typically used for marine shipments only.

Delivered at Frontier, or DAF	A shipping term meaning that the seller has the responsibility to supply the goods at his or her own risk and expense to a designated location (usually a border location) by a specified time. The buyer is then responsible for the importation of the goods into the adjoining country.
Delivered Duty Paid, or DDP	A shipping term meaning that the seller pays for all transportation costs and bears all risk until the goods have been delivered. The seller also pays the duty.
Direct Reduced Iron (DRI)	Produced from direct reduction of iron ore (in form of lumps, pellets or fines) by a reducing gas produced from natural gas or coal. The reducing gas is a mixture, the majority of which is Hydrogen (H_2) and Carbon Monoxide (CO) which acts as reducing agent.
Dolomite	A sedimentary rock composed largely of calcium magnesium carbonate.
Electric arc furnace, or EAF	A furnace that refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100% of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat that melts the charge. Alloying elements can be added during the process.
Ferroalloy	A metal product commonly used as a raw materials feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.
Ferrous	Metals that consist primarily of iron.
Fines	Fines are naturally occurring iron ore with a smaller particle size that can be shipped to the customer. Most fines need to be agglomerated prior to charging into the blast furnace; this is achieved through sintering. Such sintering reduces fines loss and greatly increases the productivity of the blast furnace. Fines are the most commonly traded iron ore product and the quality can vary considerably.
Flat products	A product that is produced by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. The major flat steel product categories are (i) thin flat products (up to 4mm in thickness), (ii) thick flat products (between 4mm and 50mm in thickness); and (iii) plates (over 50mm in thickness). Flat products are used in the automotive and white-goods industries, for production of large welded pipes, shipbuilding, construction, major works and boilers. They include hot- and cold-rolled sheet, plates and coils.
Flux	A substance applied to a surface to be joined by welding, soldering, or brazing to facilitate the flowing of solder and prevent formation of oxides.
Free Carrier, or FCA	A shipping term meaning that the cost, risk and responsibility for the goods shift from the seller to the buyer when the goods are turned over to the custody of a carrier at a designated location.
Hematite	The mineral form of iron (III) oxide (Fe_2O_3), one of several iron oxides. A mineral, coloured black, steel or silver-gray, or brown, reddish brown or red.

Hot Briquetted Iron (HBI)	Hot Briquetted Iron (HBI) is a form of Direct Reduced Iron (DRI) that has been compacted at a temperature greater than 650°C at the time of compaction and has a density greater than 5.0 grams per cubic centimetre (5.0 g/cm3).
Hot-rolled steel	Steel rolled in a hot-rolling mill.
Hot-rolling	A process whereby solidified steel, preheated to a high temperature, is continuously rolled between rotating cylinders.
Hydraulic Monitors	Provides a monitoring system which replaces the void or air space within the interstitial/annular volume of double wall piping with an inert environmentally safe, food grade, hydraulic liquid.
HYL—III Technology	A technology developed by Hylse which reduces iron ore lumps or pellets with reformed natural gas in a single-shaft furnace.
Ingot	An intermediate product made by pouring molten steel into moulds of given dimensions. In further processing steps carried out in a cogging mill, the ingots are transformed first to simple shape semifinished products like blooms or slabs and then fed to hot-rolling mills. Ingot casting is now largely replaced by continuous casting.
Integrated metallurgical	The process includes all stages starting from iron ore and coking coal processing to rolling finished products at one site.
Kursk Magnetic Anomaly	A territory rich in iron ores located within the Kursk, Belgorod, and Oryol oblasts, and constitutes a significant part of the Central Chernozyom Region. The Kursk Magnetic Anomaly is recognised as the largest magnetic anomaly on earth.
Ladle furnace	A furnace used for refining hot metal between the converter or electric arc furnaces and casting.
Long products	Long products are used in all industrial sectors, particularly in the construction and engineering industries. They include all types of bars, wire rod and a wide range of cold-formed profiles like closed profile, S-shape profile, E-shape profile, trough-shape profile, angle profile and others. They also include pipes with circular, oblong and semi-oblong, square and rectangular cross sections of a wide range of sizes.
Lump	Non-beneficiated, naturally occurring pellets or clumps of iron ore with a typical particle size greater than 6 millimetres and less than 40 millimetres. Lump is charged directly into the blast furnace; however its availability is falling. In terms of blast furnace productivity, lump is second only to pellets.
Magnetite	A ferromagnetic mineral with chemical formula Fe3O4, one of several iron oxides and a member of the spinel group. The chemical IUPAC name is iron (II, III) oxide and the common chemical name ferrous-ferric oxide.
Metallurgical lime	Quick lime used in metallurgical process to form slag and protect lining.
MIDREX DRI Technology	A shaft-type direct-reduction process where iron ore pellets, lump iron ore or a combination thereof are reduced in a vertical shaft (or reduction furnace) to metallic iron by means of a reduction gas. The reducing gas is produced from a mixture of natural gas (usually methane) and recycled gas from the reduction furnace.

MIDREX HBI Technology	A process composed of two main steps: the furnace, where iron ore is reduced, and a reformer, which generates reforming gas to be charged into the furnace. The MIDREX process makes use of both lumps and pellets as the raw material, and recycles used gas. The process has both low energy consumption and low environmental impact.
Open-hearth furnace	A broad, shallow hearth to refine pig iron and scrap into steel (also known as a "**Martin furnace**"). Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.
Open-pit mining	Open-pit mining refers to a method of extracting rock or minerals from the earth by their removal from an open pit. The term is used to differentiate this form of mining from extractive methods that require tunnelling into the earth.
Overburden	Used in mining to describe material that lies above the area of economic interest, e.g., the rock and soil that lies above the iron ore body. Overburden is removed during surface mining, but is typically not contaminated with toxic components and may be used to restore a mining site to a semblance of its appearance before mining began.
Pellet feed	The pellet feed market is a relatively small percentage of the iron ore market but has grown over recent years, mainly as a result of a growth in Chinese pellet plant capacity. Pellet feed is characterised by fine material that is not suitable for sintering.
Pellets	Pellets are the most desirable form of iron ore as they make a major contribution to blast furnace productivity. Fine-grained concentrate or naturally occurring hematite fines are agglomerated through mixing with bentonite or another binder. These are then indurated (hardened) by heat. The final pellets are typically 8-20 millimetres in diameter and may also contain fluxes to aid smelting.
Pig Iron	Pig iron is the intermediate product of smelting iron ore with coke and resin. Pig iron has a very high carbon content, which makes it very brittle and not useful directly as a material except for limited applications. It is used to produce steel, typically with an electric arc furnace or basic oxygen furnace, by burning off the excess carbon in a controlled fashion and adjusting the alloy composition.
Primary Crushing	The first stage in which crushers take run-of-mine ore and reduce it to a size small enough to be taken by the next crusher in the series.
Refining	A stage in the process of making crude steel, during which most residual impurities are removed from the crude steel and additions of other metals may be made before it is cast (see also "**Ladle furnace**").
Reinforcement bar, or Rebar	A commodity-grade steel used to strengthen concrete in highway and building construction.
Rolling Mill	A facility in which metal stock is passed through a pair of rolls, a process known as rolling. Rolling is classified according to the temperature of the metal rolled.
Scrap	Iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel. The scrap could be used as part of a metal charge together with pig iron loaded into steel-melting furnaces.

Semi-finished products Steel products such as billet, blooms and slabs. These products can be made by direct continuous casting of hot steel or by pouring the liquid steel into ingots, which are then hot-rolled into semi-finished products.

Sinter Particles in roughly one-inch chunks produced by mixing and baking iron ore concentrate and limestone flux prior to loading it into the blast furnaces for reduction into pig iron.

Slab A semi-finished steel product obtained by rolling ingots on a rolling mill or processed through a continuous caster and cut into various lengths. The slab has a rectangular cross section and is used as a starting material in the production process of flat products.

Slag A by-product, containing inert materials, produced during the blast-furnace smelting process and other steel-making operations.

Strip Flat steel products used for production of pipes. Strips with widths of less than 600mm are used for large pipes with a spiral welded seam and smaller pipes with a straight-line welded seam. Large diameter pipes (of up to 1,420mm diameter) with a straight-line welded seam require strips up to 4,600mm wide and 30mm thick.

Stripping Ratio The amount of overburden that must be removed to gain access to a unit amount of iron ore.

Vacuum degasser An advanced steel refining facility that removes oxygen, hydrogen and nitrogen under low pressures (in a vacuum) to produce ultralow carbon steel for demanding electrical and automotive applications. Normally performed in the ladle, the removal of dissolved gases results in cleaner, higher-quality, more pure steel.

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INDEX TO FINANCIAL STATEMENTS

Since the date of its incorporation, the Issuer has not commenced operations and no financial statements have been prepared in relation to the Issuer as at the date of the Prospectus.

1. Audited consolidated financial statements of the Group as at and for the year ended 31 December 2009 and the auditor's report thereon.

2. Audited consolidated financial statements of the Group as at and for the year ended 31 December 2010 and the auditor's report thereon.

3. Unaudited condensed consolidated interim financial information of the Group as at and for the three months ended 31 March 2011, and the auditor's review report thereon.

OAO Holding Company METALLOINVEST

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OAO Holding Company METALLOINVEST:

We have audited the accompanying consolidated financial statements of OAO Holding Company METALLOINVEST and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

25 June 2010
Moscow, Russian Federation

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets:			
Property, plant and equipment	7	94,747	97,540
Intangible assets	8	18,815	4,255
Mineral rights		55,299	57,347
Goodwill	8	11,714	11,714
Investments in associates	9	2,256	2,356
Available-for-sale financial assets	10	—	234
Loans advanced	12	6,934	19,251
Other non-current assets	15	9,044	11 ,576
Total non-current assets		**198,809**	**204,273**
Current assets:			
Inventories	11	17,077	17,724
Trade and other receivables	13	21,566	23,959
Loans advanced	12	678	10,818
Current income tax prepayment		1,277	4,541
Restricted cash	14	176	487
Cash and cash equivalents	14	12,327	4,901
		53,101	**62,430**
Assets held for sale	28	5,651	4,394
Total current assets		**58,752**	**66,824**
TOTAL ASSETS		**257,561**	**271,097**
EQUITY			
Share capital	25	5,527	5,527
Retained earnings and other reserves		40,123	26,469
Equity attributable to the Company's owners		**45,650**	**31,996**
Minority interest		2,354	1,461
TOTAL EQUITY		**48,004**	**33,457**

	Note	31 December 2009	31 December 2008
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	101,243	30,875
Deferred income tax liability	17	17,381	18,434
Liability to the regional administration	30	1,667	1,540
Derivative financial instruments	32	—	11 ,490
Accounts payable	16, 32	820	—
Employee benefit obligations	26	6,097	5,141
Total non-current liabilities		**127,208**	**67,480**
Current liabilities:			
Accounts payable	18	11,925	12,732
Income tax payable		654	147
Value added tax and other taxes payable		1,493	1,818
Derivative financial instruments	32	—	4,479
Short-term borrowings	16	63,248	147,051
Liability to the regional administration	30	122	118
Provision for uncertain tax positions		—	101
		77,442	**166,446**
Liabilities directly associated with assets held for sale	28	4,907	3,714
Total current liabilities		**82,349**	**170,160**
TOTAL LIABILITIES		**209,557**	**237,640**
TOTAL LIABILITIES AND EQUITY		**257,561**	**271,097**

Approved for issue and signed on 25 June 2010.

A.V. Varichev
Chief Executive Officer
OAO Holding Company METALLOINVEST

E.L.Potapov
Chief Executive Officer
OOO Management Company METALLOINVEST

The accompanying notes on pages F-11 to F-59 are an integral part of these consolidated financial statements.

	Note	2009	2008
Sales	19	150,372	229,947
Cost of sales	2,20	(93,751)	(123,737)
Gross profit		**56,621**	**106,210**
Distribution expenses	2, 21	(32,402)	(17,269)
General and administrative expenses	2, 22	(8,729)	(9,455)
Excess of fair value of net assets acquired over the cost of acquisition		—	17
Fair value loss on financial liability	32	—	(16,691)
Impairment losses	8	—	(21,351)
Other operating income—net	23	339	1,936
Operating profit		**15,829**	**43,397**
Finance income		2,367	1,109
Finance costs	24	(14,632)	(11,004)
Foreign exchange loss from borrowings		(520)	(10,824)
Gain on extinguishment of financial liability	32	12,765	—
Net loss from associates	9	(158)	(210)
Profit before income tax		**15,651**	**22,468**
Income tax charge	17	(1,735)	(14,224)
Profit for the year		**13,916**	**8,244**
Other comprehensive income			
Currency translation differences		(661)	(4,411)
Fair value gain/(loss) on available-for-sale assets	10	1,263	(689)
Actuarial gain		305	464
Gain on available-for-sale assets transferred to the statement of comprehensive income	10	(1,010)	(5,944)
Other comprehensive income for the year		**(103)**	**(10,580)**
Total comprehensive income for the year		**13,813**	**(2,336)**
Profit attributable to:			
Owners of the Company		13,855	7,743
Minority interest		61	501
		13,916	**8,244**
Total comprehensive income attributable to:			
Owners of the Company		13,752	(2,837)
Minority interest		61	501
		13,810	**(2,336)**
Basic and diluted earnings per ordinary share for profit attributable to the owners of the Company (in RUB per share)	25	0.17	0.10

The accompanying notes on pages F-11 to F-59 are an integral part of these consolidated financial statements.

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		15,651	22,468
Adjustments for:			
Depreciation of property, plant and equipment		9,905	9,327
Amortisation of other intangible assets and mineral rights		2,614	2,839
Impairment of intangible assets		—	21,351
Loss on disposal of property, plant and equipment	23	260	211
Fair value loss on financial liability	32	—	16,691
Gain on extinguishment of financial liabilities	32	(12,765)	—
Provision for impairment of receivables and prepayments	22, 23	589	2,006
(Reversal of inventories write-down)/inventories write-down		(159)	703
Finance cost (net)		12,265	9,622
Foreign exchange (gains)/losses		(269)	10,216
Net gain on disposal of available-for-sale financial assets	23	(985)	(5,944)
Employee benefits	26	1,016	253
(Gain)/loss on disposal of subsidiaries		(8)	865
Loss from investments in associates	9	158	210
Release of provision for uncertain tax positions		(169)	(167)
Other		(100)	(17)
Operating cash flow before changes in working capital		**28,003**	**90,634**
Inventories		835	2,525
Trade and other receivables		3,198	150
Trade and other payables		87	(1,642)
Assets held for sale		771	284
Employee benefits obligation		(337)	(366)
Cash generated from operations		**32,557**	**91,585**
Interest paid		(13,054)	(11,468)
Income tax paid		(1,311)	(21,137)
Income tax refund		2,143	—
Waiver fees and other charges		(946)	—
Net cash from operating activities		**19,389**	**58,980**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets		(9,748)	(24,945)
Proceeds from the sale of property, plant and equipment and intangible assets		93	388
Acquisition of subsidiaries, net of cash acquired	27	—	(16,288)
Proceeds from disposal of subsidiary, net of cash disposed		—	245
Cash inflow from acquisition of OOO KB Ferrobank (prior to 5 May 2009 named as OOO KB SVIB)	27	—	1,166
Acquisitions of additional interest in subsidiaries		—	(170)
Acquisition of commercial papers		(392)	—
Proceeds from disposal of commercial papers		14,533	—
Acquisition of available-for-sale financial assets		—	(19,219)
Proceeds from disposal of available-for-sale financial assets		1,499	11,707
Change in restricted cash balances		311	(385)
Loans advanced		—	(28,959)
Repayment of loans advanced		10,696	10,773
Payment for Udokan copper field licence	8	(10,540)	(4,500)
Interest income received		998	1,259
Dividends received		—	—
Net cash from/(used in) investing activities		**7,450**	**(68,928)**

	Note	2009	2008
Cash flows from financing activities:			
Repayment of borrowings		(97,932)	(77,945)
Proceeds from borrowings		80,919	106,608
Payment of finance lease liability		(44)	(51)
Proceeds from financial derivatives		—	97
Payment on financial derivatives		—	(820)
Payments of financial liability		(1,614)	—
Dividends paid to owners of the Company		—	(21,999)
Dividends paid by the Group's subsidiaries to minority shareholders		—	(269)
Net cash (used in)/from financing activities		**(18,671)**	**5,621**
Effect of exchange rate changes on cash and cash equivalents		119	293
Net increase/(decrease) in cash and cash equivalents		**8,287**	**(4,034)**
Cash and cash equivalents at the beginning of the year, net of restricted cash		**6,351**	**10,385**
Cash and cash equivalents at the end of the year, net of restricted cash		**14,638**	**6,351**
Included in cash and cash equivalents per the statement of financial position	14	12,327	4,901
Included in the assets of the disposal group	28	2,311	1,450

The following non-cash transactions were excluded from investing and financing activities:

	Note	2009	2008
Non-cash investing activities			
Settlement of loans advanced to related party, including interest income, with promissory notes	29	13,977	—
Disposal of available-for-sale financial assets settled in the form of promissory notes	29	—	17,918
Conversion of promissory notes into the loan	29	—	(9,648)
Total non-cash investing activities		**13,977**	**8,270**
Non-cash financing activities			
Repayment of the loan payable with promissory notes	29	—	(8,270)
Total non-cash financing activities		**—**	**(8,270)**

The accompanying notes on pages F-11 to F-59 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company					
	Share capital	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2008	**5,527**	**6,516**	**44,722**	**56,765**	**1,264**	**58,029**
Profit for the period	—	—	7,743	7,743	501	**8,244**
Other comprehensive income						
Currency translation differences	—	(4,411)	—	(4,411)	—	**(4,411)**
Fair value loss on available-for-sale assets (Note 10)	—	(689)	—	(689)	—	**(689)**
Actuarial gain on employee benefit obligation (Note 2)	—	—	464	464	—	**464**
Gain on available-for-sale financial assets transferred to the statement of comprehensive income	—	(5,944)	—	(5,944)	—	**(5,944)**
Total comprehensive income for the year ended 31 December 2008	**—**	**(11,044)**	**8,207**	**(2,837)**	**501**	**(2,336)**
Disposal of subsidiary	—	—	—	—	(164)	**(164)**
Disposal of interest in subsidiary (Note 29)	—	—	—	—	366	**366**
Acquisitions of additional interest in subsidiaries	—	—	67	67	(237)	**(170)**
Transactions with owners (Note 29)	—	—	—	—	—	**—**
Dividends declared by the Group's subsidiaries to minority shareholders	—	—	—	—	(269)	**(269)**
Dividends declared by the Company	—	—	(21,999)	(21,999)	—	**(21,999)**
Balance at 31 December 2008	**5,527**	**(4,528)**	**30,997**	**31,996**	**1,461**	**33,457**
Profit for the period	—	—	13,855	13,855	61	**13,916**
Other comprehensive income						
Currency translation differences	—	(661)	—	(661)	—	**(661)**
Fair value gain on available-for-sale assets (Note 10)	—	1,263	—	1,263	—	**1,263**
Actuarial gain on employee benefit obligation	—	—	305	305	—	**305**
Gain on available-for-sale financial assets transferred to the statement of comprehensive income	—	(1,010)	—	(1,010)	—	**(1,010)**
Total comprehensive income for the year ended 31 December 2009	**—**	**(408)**	**14,160**	**13,752**	**61**	**13,813**
Disposal of interest in subsidiaries (Note 29)	—	—	(98)	(98)	832	**734**
Balance at 31 December 2009	**5,527**	**(4,936)**	**45,059**	**45,650**	**2,354**	**48,004**

The accompanying notes on pages F-11 to F-59 are an integral part of these consolidated financial statements.

1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for OAO Holding Company METALLOINVEST (the "Company") and its subsidiaries (the "Group"). The Group's principal business activity is the production and sale of iron ore products and ferrous metals. These products are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is Lesnaya str., 3, Moscow, Russia. The Group's manufacturing facilities are primarily based in the Kursk, Belgorod and Orenburg regions.

On 4 June 2008, the Company reorganised its legal form from a closed joint stock company to open joint stock company.

At 31 December 2009 and 2008, Gallagher Holdings Limited (Cyprus) owned a 50% stake in the Company, Seropaem Holdings Limited (Cyprus) owned a 30% stake and Coalco Metals Limited (Cyprus) owned a 20% stake.

The following table sets out the principal subsidiary undertakings of the Group:

		Nominal ownership, %	
Entity	**Activity**	**31 December 2009**	**31 December 2008**
OAO Holding Company METALLOINVEST	Holding company	Holding company	
OOO Management Company METALLOINVEST	Management company	100%	100%
Subsidiaries:			
OAO Lebedinskiy Mining and Processing Works ("LGOK")	Production and sale of iron ore products	100%	100%
OAO Oskol Electrometallurgical Combine ("OEMK")	Production and sale of ferrous metal products	100%	100%
OAO Mikhailovsky Mining and Processing Works ("MGOK")	Production and sale of iron ore products	97.7%	98.3%
OAO Ural Steel ("Ural Steel")	Production and sale of ferrous metal products	100%	100%
OOO Metalloinvesttrans	Transportation services	100%	100%
Metalloinvest Holding Limited (Cyprus)	Holding of investments	100%	100%
OOO Ural Scrap Company	Collection and processing of metal scrap	80%	80%
Ferrous Metal Company Limited (Gibraltar) (FMC)	Iron ore and steel products trading	100%	100%
Metalloinvest Trading AG (Switzerland)	Iron ore and steel products trading	100%	100%

2 Basis of preparation and summary of significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Consolidated financial statements. Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquiree at each exchange transaction represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

When a business combination involves more than one transaction any adjustments to those fair values relating to any previously held interest of the Group is recognised as a revaluation in other comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Transactions with minority interests. The Group applies a policy of treating transactions with minority interests as transactions with owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the period, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss in the financial period in which they are incurred.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	7 to 50
Plant and equipment	3 to 25
Transport	5 to 20
Other	2 to 10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets. The Group's intangible assets other than goodwill have finite useful lives and primarily include customer relationships acquired in business combinations, acquired computer software licences and licensed technology. Intangible assets are amortised using the straight-line method over their estimated useful lives of three to five years and assessed for impairment whenever there is an indication than the intangible assets

may be impaired. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Exploration and evaluation expenditures. Exploration and evaluation expenditures include licenses and other expenditures incurred by the Group in connection with the exploration and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The costs associated with acquisition of licenses are recognised as exploration and evaluation assets. The Group classifies exploration and evaluation assets as tangible or intangible according to the nature of the assets. Exploration and evaluation assets are measured at cost and are not depreciated or amortised. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. In 2008 and 2009 the exploration and evaluation expenditures included primarily costs associated with acquisition of licenses.

Development expenditure. Development expenditure includes costs directly attributable to the construction of production facilities and related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalised and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

Mineral rights. In accordance with provisions of IFRS 3, Business Combinations, mineral rights acquired in business combinations are recorded at their fair values at the date of acquisition, based on their appraised fair value. Other mineral rights and licences are recorded at cost.

Mineral rights stated at 31 December 2009 and 2008 represent mineral rights recognised as a result of acquisition of MGOK in December 2006 which grant access to reserves that will be extracted over periods in excess of 100 years. The appraised value of these rights reflects expected cash flows over thirty years from the date of acquisition, since the impact of cash flows beyond this period is not material. The Group's production plans for these reserves are such that there is no material difference between amortisation calculated using the units of production and using the straight-line method. These rights are therefore amortised on a straight line basis over thirty years.

Financial assets. The Group classifies its financial assets in the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

(a) *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', loans advanced and cash and cash equivalents in the statement of financial position.

(b) *Available-for-sale* financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

(c) *Held-to-maturity* assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each end of the reporting period.

(d) *Financial assets at fair value through profit or loss* are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets that require delivery within a time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in other comprehensive income for assets classified as available for sale.

Financial assets are initially recognised at fair value plus transaction costs directly attributable to the acquisition or issue of the financial assets, except for financial assets at fair value through profit or loss which are initially recognised at fair value and respective transaction costs are expensed in the period when incurred. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss as 'other income/(expenses)—net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss for the period as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are reclassified from other comprehensive income to 'gains and losses from investment securities' in profit or loss for the period. Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events that occurred after the initial recognition of financial asset. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss—is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted

balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'general and administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to 'general and administrative expenses' within profit or loss for the year.

Inventories. Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Advances issued. Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Financial liabilities. The Group classifies its financial liabilities in the following categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Derivative instruments are measured at fair value with the fair value gains and losses recognised in profit or loss. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in the variables relative to their terms. They are classified into the trading category and presented as current or non-current, depending on their maturity dates. Other financial liabilities include trade and other payables and borrowings. Other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Income taxes. The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income, primarily the Russian legislation. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences arising on initial recognition of goodwill

or subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided for temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group’s uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Company’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian roubles (“RUB”).

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the Central Bank of the Russian Federation (“the Central Bank”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from settlement of transactions and from translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the previously recognised exchange differences (or their relevant portion) on translation of the foreign operation into a different presentation currency are reclassified from other comprehensive income to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2009 the principal exchange rates used for translating foreign currency balances were USD 1 = RUB 30.2442 (2008: USD 1 = RUB 29.3804), EUR 1 = RUB 43.3883 (2008: EUR 1 = RUB 41.4411).

Financial guarantees. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each type of the Group's revenue as described below.

Sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Short-term employee benefits. Wages, salaries, contributions to the Russian Federation state pension, medical and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group and are included within labour costs in operating expenses. The Group recognised contributions of RUB 2,421 million as part of labour costs in 2009 (2008: RUB 2,508 million).

Pension and other post-employment benefits. Group companies operate both funded and unfunded post-employment benefits plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period date less the fair value of any plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have maturities approximating those of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income as they arise.

Past-service costs are recognised immediately in profit or loss, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Some group companies provide post-retirement healthcare and other benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are recognised immediately as they arise. These obligations are valued annually by independent qualified actuaries.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as ‘non-current assets held for sale’ if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together in a single transaction, and the liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment is not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to write-down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Change in accounting policies. In 2009 the Group made a voluntary change of its accounting policy for post-employment benefit plans to recognise actuarial gains and losses in other comprehensive income. Prior to 1 January 2009 actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions have been recognised in profit or loss. The Group adjusted comparative amounts disclosed for prior period as if the new accounting policy had always been applied. The Group believes that recognising actuarial gains and losses in other comprehensive income results in a better presentation of operating results in the statement of comprehensive income and the financial statements thus provide more relevant information. Actuarial gains and losses arising from significant fluctuations in actuarial assumptions, if recognised in profit and loss, impair comparability of the Group's financial performance measured at profit and loss level. The new policy allows that all remeasurements are presented whihin other comprehensive income.

The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The change in accounting policy for post-employment benefits pension plans does not affect the Group's statement of financial position. In these circumstances, management considered whether omitting the opening statement of financial position at 1 January 2008 would represent a material omission of information. In management's opinion, the omission of the opening statement of financial position, where the restatement does not affect any statement of financial position, is not material and is therefore permitted.

The change in accounting policy for post-employment benefits pension plans resulted in the following adjustments in the comparative information for 2008:

- increase in cost of sales and decrease in gross profit of RUB 329 million;
- increase in distribution expenses of RUB 4 million;
- increase in general and administrative expenses of RUB 131 million;
- decrease in operating profit and profit for the year of RUB 464 million;
- increase in Actuarial gains within other comprehensive income of RUB 464 million.

The change in accounting policy does not affect the Group's total comprehensive income for 2008.

3 Critical accounting estimates and judgments

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain

judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Remaining useful life of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on experience with similar assets. The future economic benefits embodied in assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in a reduction of the economic benefits embodied in the assets. Management assesses remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The Group extracts iron ore from land owned by government authorities. The Group obtains licences and pays exploration and production taxes to explore and produce iron ore from fields covered by the licences. The licences expire in 2016, but they may be extended at the Group's initiative provided the Group is in compliance with licence terms. The estimated remaining useful life of some property, plant and equipment is beyond the expiration dates of the related licences. Management believes that the Group is currently in compliance with licence terms and will be able to extend the licences. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

(b) Obligations related to the retirement of long-lived assets

Based on the current requirements under Russian law and various contractual agreements associated with the licences and the expected life of the reserves, the Group has estimated its discounted obligations related to the retirement of its long-lived assets as immaterial.

(c) Related party transactions

In the normal course of business the Group enters into transactions with its related parties (Note 29). IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

(d) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

(e) Provision for employee benefit obligations

The Group's estimates for employee benefit obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates may be revised in the future, either negatively or positively. Provisions for employee benefit obligations are periodically adjusted based on updated actuarial assumptions. The principal assumptions used in valuation of employee benefit obligations are the discount rate and inflation rate (Note 26).

(f) Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8.

(g) Impairment of long-lived assets

At each end of the reporting period management assesses whether there is any indication of impairment of long-lived assets, including property, plant and equipment and intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Since April 2009 steel and iron ore market significantly improved including increased demand and prices and this trend has continued into 2010. The Group met its internal forecasts for 2009 and concluded that there were no indicators of impairment of long-lived assets at 31 December 2009.

(h) Going concern

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 31). The Group's activities, liquidity position and operating performance have been adversely affected by the global financial crisis. The decrease in demand and prices for the Group's products in the last quarter of 2008 and early in 2009 placed significant pressure on the Group's performance and its liquidity. Since April 2009 steel and iron ore markets significantly improved including increased demand and higher prices and this trend has continued into 2010. As further discussed in Note 16, during 2009 the Group discussed with its lenders additional facilities, refinancing of certain existing loans, waivers in relation to breached covenants and amendments to existing facilities. In December 2009 majority of these negotiations were successfully completed. These measures together with market improvements allowed the Group to strengthen its financial position at the end of 2009. Management has reviewed its cash flow forecasts in the context of current and projected market conditions and the Group's borrowings and credit facilities and is confident that the Group will be able to service its debt in accordance with the agreed terms and meet its other obligations as they fall due.

4 Adoption of new or revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. In 2009 the Group presented segment information for the first time (Note 6).

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. Prior to the date the amendment became effective the Group did not capitalise borrowing costs and recognised them as an expense immediately. The Group did not have material qualifying assets for which the commencement date for capitalisation fell in 2009. The revised standard did not materially affect the Group's consolidated financial statements.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have a material impact on the Group's financial statement.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any material impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments—Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Embedded Derivatives—Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group decided not to apply the IFRS for SMEs.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group does not expect IFRIC 17 to affect its consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group does not expect IFRIC 18 to affect its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to affect its consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity

transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group does not expect the revised standard to have any effect on its consolidated financial statements.

Group Cash-settled Share-based Payment Transactions—Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Classification of Rights Issues—Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to affect its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker;

amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Additional Exemptions for First-time Adopters—Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's consolidated financial statements.

Prepayments of a Minimum Funding Requirement—Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It

removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group is currently assessing the impact of the amended interpretation on its consolidated financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters—Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the end of the reporting period and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

6 Segment information

Starting 1 January 2009, the Group discloses its segment information in accordance with IFRS 8 "Operating segments".

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The functions of the CODM are performed by the Board of Directors of the Group. Management has determined the operating segments based on the reports reviewed by the Board of Directors of the Group.

For management purposes, the Group is organised into business units based on their products and services, and has the following reportable operating segments:

- Mining—production and sale of iron ore products (includes LGOK and MGOK);
- Steel—production and sale of ferrous metal products (includes OEMK and Ural Steel);
- Trading—overseas trading of the Group's products (includes Ferrous Metal Company Limited and Metalloinvest Trading AG);
- Transportation—transportation and logistic services rendered by OOO Metalloinvesttrans;
- Leasing—inter-segment leasing services;
- Scrap-processing—collection and processing of metal scrap by OOO Ural Scrap Company and its subsidiaries.

Other activities have been included in the "All other segments" column. These activities include central management, certain services and investment activities, construction of Hamriyah steel plant and the Group's activities in exploration and evaluation of oil and gas and copper deposits.

The CODM reviews financial information prepared in accordance with Russian accounting standards or IFRS and adjusted to meet internal reporting requirements. Such financial information differs in certain aspects from information presented in accordance International Financial Reporting Standards.

Sales between segments are carried out at arm's length. Revenue from external parties reported to the Board of Directors of the Group is measured in a manner consistent with that in profit or loss.

The CODM evaluates the performance of each segment based on EBITDA, which is determined as operating profit before tax adjusted for depreciation and amortisation, foreign exchange gain or loss, interest income and expense and certain other non-cash and extraordinary items. Since EBITDA is not a standard IFRS measure, the Group's definition may differ from that of other companies.

Segment financial information reviewed by the CODM includes working capital as a measure of reportable segments' assets. Working capital consists of inventories and certain receivables and payables. Since working capital is not a standard IFRS measure, the Group's definition may differ from that of other companies.

Segment information for the year ended 31 December 2009 is as follows:

	Mining	Steel	Trading	Transportation	Scrap processing	Leasing	All other segments	Eliminations	Total
2009									
External revenue	20,105	38,097	89,730	1,591	583	156	110	—	150,372
Inter-segment revenue	30,936	42,102	60	11,399	13,380	3,657	75	(101,609)	—
Total revenue	**51,041**	**80,199**	**89,790**	**12,990**	**13,963**	**3,813**	**185**	**(101,609)**	**150,372**
EBITDA	**11,655**	**6,764**	**2,151**	**1,469**	**467**	**3,508**	**(483)**	**—**	**25,531**
Depreciation and amortisation	2,024	2,577	24	102	184	2,595	6	—	7,512
Interest income	2,101	89	24	3	—	18	118	—	2,353
Inter-segment interest income	1,145	3,343	13	13	—	—	301	(4,815)	—
Interest expense	5,004	4,247	307	80	76	486	1,748	—	11,948
Inter-segment interest expense	2,497	70	—	—	94	45	2,109	(4,815)	—
Income tax expense	1,227	776	34	285	19	70	(409)	—	2,002
Total reportable segment assets	**2,245**	**16,202**	**606**	**2,409**	**82**	**184**	**175**	**—**	**21,903**
Capital expenditure	**1,638**	**4,266**	**3**	**118**	**95**	**119**	**13,788**	**—**	**20,027**

Segment information for the year ended 31 December 2008 is as follows:

	Mining	Steel	Trading	Transportation	Scrap processing	Leasing	All other segments	Eliminations	Total
2008									
External revenue	67,723	109,530	40,328	3,849	5,485	174	2,858		229,947
Inter-segment revenue	30,984	16,357	—	7,783	25,495	3,049	831	(84,499)	—
Total revenue	**98,707**	**125,887**	**40,328**	**11,632**	**30,980**	**3,223**	**3,689**	**(84,499)**	**229,947**
EBITDA	**51,785**	**29,634**	**(276)**	**1,695**	**2,721**	**3,017**	**10**		**88,586**
Depreciation and amortization	1,752	1,846	7	84	150	2,143	39		6,021
Interest income	330	476	36	16	—	1	255		1,114
Inter-segment interest income	1,284	834	7	46	—	—	197	(2,368)	—
Interest expense	4,277	1,905	254	104	211	622	1,771		9,144
Inter-segment interest expense	359	221	—	—	49	133	1,606	(2,368)	—
Income tax expense	10,613	5,955	36	384	364	1	1,823		19,176
Total reportable segment assets	**11,044**	**17,218**	**(1,674)**	**1,017**	**4,323**	**549**	**145**	**—**	**32,622**
Capital expenditure	**6,797**	**9,209**	**10**	**94**	**513**	**4,021**	**7,643**	**—**	**28,287**

A reconciliation of EBITDA to profit before tax is provided as follows:

	2009	2008
EBITDA for reportable segments	**26,014**	**88,576**
Other segments EBITDA	**(483)**	**10**
Adjustments to EBITDA arising from differences in management accounting and requirements of IFRS:		
Capitalisation of elements of cost of non-current assets recognised as expenses in profit or loss in accordance with RAS	513	931
Additional loss on disposal of property, plant and equipment	(488)	(625)
Unrealised profits adjustment	633	(1,207)
Additional provision for impairment of receivables	(576)	(531)
Employee benefit obligations adjustment	(679)	113
Adjustment in respect of borrowing costs	386	701
Reclassification of waiver fees and other charges from operating expenses to finance costs	1,038	161
Other adjustments	217	331
	26,575	**88,460**
Other reconciling items:		
Depreciation and amortisation	(12,519)	(12,167)
Finance income	2,366	1,109
Finance costs	(14,632)	(11,004)
Foreign exchange gains/(losses)	269	(10,216)
Fair value loss on financial liability	—	(16,691)
Gain on extinguishment of financial liability	12,765	—
Impairment losses	—	(21,351)
Net gain on available-for-sale financial assets	985	5,944
Impairment of prepayment for an investment	—	(1,406)
Net loss from associates	(158)	(210)
Profit before tax	**15,651**	**22,468**

Reportable segments' assets are reconciled to total assets as follows:

	2009	2008
Segment assets for reportable segments	**21,728**	**32,477**
Other segments assets	**175**	**145**
Segment liabilities for reportable segments and other segments liabilities	17,805	15,519
Unrealised profits adjustment	(790)	(1,431)
Additional provision for impairment of receivables	(355)	(17)
Recognition of prepaid expenses in profit or loss for the year	(435)	(455)
Other	138	(969)
Unallocated:		
Non-current assets	198,809	204,273
Cash	12,503	5,388
Interest receivable	202	238
Current loans advanced	678	10,818
Financial receivables	1,133	366
Assets held for sale	5,651	4,394
Other	319	351
Total consolidated assets	**257,561**	**271,097**

Substantially all of the Group's non-current non-financial assets are located in the Russian Federation. Non-current non-financial assets located in foreign countries are mainly represented by assets of Hamriyah Steel FZC (UAE) of RUB 4,660 million (2008: RUB 1,424 million.).

The Group's revenues are analysed by products and services in Note 19.

An analysis of the Group's revenues from external customers by their geographical location presented as follows:

	2009	2008
Russia	50,860	94,082
China	20,496	2,655
Turkey	11,906	6,524
Iran	11,139	2,478
CIS	9,206	23,769
Slovakia	5,333	2,795
Italy	4,257	3,994
Vietnam	3,967	—
United Arab Emirates	3,824	529
Thailand	3,705	—
Poland	1,271	3,894
Germany	666	7,903
Other countries	23,742	20,685
Gibraltar*	—	60,639
Total consolidated revenues	**150,372**	**229,947**

* Prior to August 2008, the Group realised its export sales mainly though FMC, a trading company located in Gibraltar. On 1 August 2008, the Group acquired FMC (Note 27). The allocation of revenue by customer location for 2008 represents the Group's revenue for the period from the acquisition until 31 December 2008. Revenues to FMC for the period from 1 January 2008 until 1 August 2008 represented more than 10 % of the Group's revenues and included revenues of Mining segment of RUB 28,961 million, Steel segment of RUB 31,113 million and Transportation segment of RUB 565 million. No other customers represent 10% or more of the Group's total revenue.

7 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost at 1 January 2008	593	40,767	50,223	13,474	1,490	11,658	118,205
Accumulated depreciation	—	(9,269)	(16,227)	(3,694)	(510)	—	(29,700)
Carrying amount at 1 January 2008	**593**	**31,498**	**33,996**	**9,780**	**980**	**11,658**	**88,505**
Acquisitions through business combinations	—	25	22	8	5	—	60
Additions	29	264	1,650	4,254	175	15,088	21,460
Transfers	20	1,129	4,111	108	47	(5,415)	—
Disposals	(21)	(1,205)	(1,048)	(78)	(81)	(315)	(2,748)
Depreciation charge	—	(2,425)	(5,794)	(1,252)	(268)	—	(9,739)
Translation to presentation currency	—	—	—	—	—	2	2
Carrying amount at 31 December 2008	**621**	**29,286**	**32,937**	**12,820**	**858**	**21,018**	**97,540**
Cost at 31 December 2008	621	40,597	54,158	17,454	1,572	21,018	135,420
Accumulated depreciation	—	(11,311)	(21,221)	(4,634)	(714)	—	(37,880)

	Land	Buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Carrying amount at 1 January 2009	**621**	**29,286**	**32,937**	**12,820**	**858**	**21,018**	**97,540**
Additions	2	92	1,122	286	7	6,322	7,831
Transfers	—	2,902	9,855	62	31	(12,850)	—
Disposals	—	(84)	(228)	(109)	(219)	(41)	(681)
Depreciation charge	—	(2,467)	(6,130)	(1,162)	(181)	—	(9,940)
Translation to presentation currency	—	—	(2)	—	1	(2)	(3)
Carrying amount at 31 December 2009	**623**	**29,729**	**37,554**	**11,897**	**497**	**14,447**	**94,747**
Cost at 31 December 2009	623	43,464	64,602	17,536	1,379	14,447	142,051
Accumulated depreciation	—	(13,735)	(27,048)	(5,639)	(882)	—	(47,304)
Carrying amount at 31 December 2009	**623**	**29,729**	**37,554**	**11,897**	**497**	**14,447**	**94,747**

Costs of replacing major parts and components of property, plant and equipment items were capitalised in 2009 in the amount of RUB 337 million (2008: RUB 931 million).

The carrying amount of property, plant and equipment pledged as collateral was as follows:

	31 December 2009	31 December 2008
Bank borrowings (Note 16)	12,035	16,921
Guarantees issued in favour of third parties	45	—
Total carrying amount of pledged property, plant and equipment	**12,080**	**16,921**

No impairment losses were recognised as a result of the impairment test described in Note 8.

8 Intangible assets

	Goodwill	Customer relation-ships	Order backlog	Acquired software licences	Licensed technology	Capitalised exploration and evaluation expenditure*	Total
Carrying amount at 1 January 2008	16,816	1,909	—	202	154	—	**19,081**
Cost at 1 January 2008	**16,858**	**2,386**	**—**	**252**	**169**	**—**	**19,665**
Accumulated amortisation and impairment	**(42)**	**(477)**	**—**	**(50)**	**(15)**	**—**	**(584)**
Acquisitions through business combinations (Note 27)	14,928	—	1,524	—	—	—	**16,452**
Exchange differences	273	—	—	—	—	—	**273**
Additions	—	—	—	148	—	2,380	**2,528**
Amortisation charge	—	(477)	(253)	(44)	(17)	—	**(791)**
Classified as assets held for sale	(181)	—	—	—	—	—	**(181)**
Disposals	(42)	—	—	—	—	—	**(42)**
Impairment charge	(20,080)	—	(1,271)	—	—	—	**(21,351)**
Carrying amount at 31 December 2008	11,714	1,432	—	306	137	2,380	**15,969**
Cost at 31 December 2008	**31,836**	**2,386**	**1,524**	**400**	**169**	**2,380**	**38,695**
Accumulated amortisation and impairment	**(20,122)**	**(954)**	**(1,524)**	**(94)**	**(32)**	**—**	**(22,726)**
Additions	—	—	—	86	—	15,040	**15,126**
Amortisation charge	—	(477)	—	(72)	(17)	—	**(566)**
Carrying amount at 31 December 2009	11,714	955	—	320	120	17,420	**30,529**
Cost at 31 December 2009	**31,836**	**2,386**	**1,524**	**486**	**169**	**17,420**	**53,821**
Accumulated amortisation and impairment	**(20,122)**	**(1,431)**	**(1,524)**	**(166)**	**(49)**	**—**	**(23,292)**

* As at 31 December 2008 and 2009, capitalised exploration and evaluation expenditures are represented by licence acquisition costs (Udokan copper deposit licence and Sladkovsko-Zarechnoe oil and gas deposit licence).

Udokan copper deposit licence

In June 2009, the Group obtained a licence for the Udokan copper deposit. The cost of the licence amounted to RUB 15,000 million; RUB 4,500 million of which was prepaid in September 2008 and the remaining RUB 10,500 million was paid in July 2009.

In accordance with the terms of the licence, the Group has to comply with the following commitments:

- finalise a feasibility analysis and geological assessment of the copper deposit within 18 months of June 2009;
- agree upon a technical project for the copper deposit development with the state authorities within 30 months of June 2009;
- start the construction of production facilities within 42 months of June 2009;
- start the extraction of copper ore within 60 months of June 2009;
- complete the construction of mining and processing facilities and attain the estimated production capacity within 84 months of June 2009.

Sladkovsko-Zarechnoe oil and gas deposit licence

In September 2008, the Group acquired a 100% interest in SZ Regionoil Holdings Limited for a consideration of RUB 2,380 million. The acquired company has a 100% interest in OOO Sladkovsko-Zarechnoe, which holds a subsoil licence for the Sladkovsko-Zarechnoe oil and gas deposit. The acquired assets do not constitute a business and thus the Group allocated the purchase consideration to the cost of the licence.

In 2008 and 2009 the exploration and evaluation expenditures associated with the acquired licences were not significant.

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. At 31 December 2009 and 2008, goodwill of RUB 11,714 million related to CGU MGOK, which is included in the Group's mining segment.

Goodwill was tested for impairment as at 31 December 2009. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash-flow projections based on financial budgets approved by management for a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates.

The key assumptions used for value-in-use calculations at 31 December 2009 and 31 December 2008 are as follows:

	2009	2008
Growth rate	3%	3%
Pre-tax discount rate	16.2%	17.5%

The estimated growth rates used are consistent with forecasts in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU. Based on the results of these calculations the Group concluded that at 31 December 2009 no impairment charge was required. If the estimated growth rate and pre-tax discount rate applied to the discounted cash flows of MGOK had been 1% lower and 1% higher, respectively, than management's estimates, goodwill would still have not been impaired.

In 2008 the impairment test resulted in an impairment loss of RUB 21,351 million. The impairment loss was recognised subsequent to a substantial reduction in sale prices and volumes due to weakening economic and market conditions in 2008. The impairment arose in the following CGUs:

CGUs	Goodwill	Other intangible assets	Total
Ural Steel	2,339	—	2,339
Hamriyah Steel	1,448	—	1,448
FMC	14,718	1,271	15,989
Other	1,575	—	1,575
Total	**20,080**	**1,271**	**21,351**

9 Investments in associates

In August 2008, the Group completed an acquisition of 32,708,799 ordinary shares (approximately 22% of the issued share capital) of Nautilus Minerals Inc. Nautilus Minerals Inc. is a development stage enterprise which is engaged in exploring the ocean floor for gold and copper sulphide deposits. Nautilus Minerals Inc. is incorporated in Canada and is listed on the Toronto Stock Exchange and the London Stock Exchange's Alternative Investment Market. The associate was initially recorded at a fair value of RUB 1,665 million. Goodwill did not arise from this transaction. By 31 December 2009 the Group's stake in the associate's issued share capital was diluted from 22% to 21%.

In July 2008 the Group's interest in OSMiBT was diluted from 100% to 40% as the result of an additional cash contribution to the share capital by a related party (Note 27). Since July 2008, the Group has accounted for its 40% interest in OSMiBT as investment in associates.

The table below summarises the movements in the carrying amount of the Group's investments in associates.

	2009	2008
Carrying amount at 1 January	**2,356**	**—**
Share of net loss of associates	(158)	(210)
Reclassification due to disposal of controlling interest (Note 27)	—	603
Additions	—	1,665
Exchange differences	58	298
Carrying amount at 31 December	**2,256**	**2,356**

The Group's interests in its principal associates and their summarised financial information as at 31 December 2009, including total assets and liabilities, were as follows:

Name of associate	Country of incorporation	Assets	Liabilities	Revenue	Profit (loss)	% of interest held
OSMiBT	Russian Federation	2,776	(1,070)	2,702	57	40%
Nautilus Minerals Inc	Canada	7,315	(258)	—	(861)	21%

The Group's interests in its principal associates and their summarised financial information as at 31 December 2008, including total assets and liabilities, were as follows:

Name of associate	Country of incorporation	Assets	Liabilities	Revenue	Profit (loss)	% of interest held
OSMiBT	Russian Federation	1,893	(230)	1,604	148	40%
Nautilus Minerals Inc	Canada	7,932	(415)	—	(1,275)	22%

The market value of the Group's interest in Nautilus Minerals Inc as at 31 December 2009 was RUB 1,652 million (Toronto Stock Exchange quotation) (2008: RUB 805 million).

10 Available-for-sale financial assets

	2009	2008
At 1 January	**234**	**10,480**
Additions	—	6,166
Revaluation to fair value	1,263	(689)
Disposals	(1,494)	(15,586)
Exchange differences	(3)	(137)
At 31 December	**—**	**234**
Less: non-current portion	—	(234)
Current portion	**—**	**—**

Available-for-sale financial assets include the following:

	Currency	2009	2008
Listed securities:			
Shares of Medusa Mining Inc.	Australian dollar (AUD)	—	234
Total		**—**	**234**

Medusa Mining Inc. In April 2008 the Group acquired 17,500,000 shares (approximately 12% of the issued share capital) of Medusa Mining Inc. for a consideration of RUB 487 million (AUD 22 million) from a shareholder. Medusa Mining Inc. is a gold producer and is listed on the Australian Stock Exchange and the London Stock Exchange's Alternative Investment Market.

In October 2009 the Group disposed of its entire interest in Medusa Mining to a third party for a consideration of RUB 1,500 million (AUD 56 million) and recognised net gain on the disposal of RUB 985 million in the statement of comprehensive income (a gain of RUB 1,010 million was removed from equity to other operating income in the statement of comprehensive income).

Mount Gibson Iron Limited. In April 2008, the Group sold its entire interest in Mount Gibson Iron Limited (156.8 million shares or approximately 19.52% of its issued capital), a mining company which is publicly traded on the Australian Stock Exchange, to the third parties at AUD 2.65 per share and removed a gain of RUB 5,944 million from equity to other operating income in the statement of comprehensive income.

Additions and disposals also include, at fair value, the purchase and sale of equity securities described in Note 29.

11 Inventories

	31 December 2009	31 December 2008
Raw materials	10,857	10,841
Work in progress	1,656	1,973
Finished products	4,564	4,910
Total	**17,077**	**17,724**

At 31 December 2009, inventories of RUB 2,716 million (2008: RUB 1,243 million) were pledged as security for borrowings.

During 2009 the Group reversed RUB 159 million of a previous inventory write-down (2008: recognised inventory write-down to net realisable value of RUB 703 million). The Group has sold part of the goods that were previously written down for approximately their net carrying value. A reverse of inventories write-down of RUB 159 million was recognised in cost of sales in profit or loss for the year.

12 Loans advanced

	Currency	Interest rate	31 December 2009	Interest rate	31 December 2008
Short-term					
Loans advanced to related parties (Note 29)	USD	—	—	7.00%	1,852
Loans advanced to related parties (Note 29)	RUB	6%-12.00%	529	15.00%	8,610
Loans advanced to third parties	USD	—	—	3.44%	356
Loans advanced to third parties	RUB	8.00%	149		—
			678		**10,818**
Long-term					
Loans advanced to related parties with maturity in November 2011 (Note 29)	USD	—	—	10.25%	10,390
Loans advanced to related parties with maturity in December 2011 (Note 29)	RUB	17.80%	6,907	17.80%	8,728
Loans advanced to third parties	RUB	8.75%	27	—	133
			6,934		**19,251**
			7,612		**30,069**

Interest accrued on long-term loans advanced of RUB 1,365 million (2008: RUB 40 million) with maturity in December 2011 are included in long-term receivables (Note 15).

The fair values of loans advanced approximate their carrying amounts.

13 Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables	13,212	14,164
Less: provision for impairment of trade receivables	(226)	(70)
Trade receivables—net	12,986	14,094
Other financial receivables	2,003	922
Less: provision for impairment of other receivables	(227)	(97)
Other receivables—net	1,776	825
Total financial assets within trade and other receivables	**14,762**	**14,919**
Advances to suppliers	1,325	2,192
VAT recoverable	2,299	2,928
VAT receivable	2,715	3,125
Other taxes receivable	38	48
Other receivables	427	747
Total trade and other receivables	**21,566**	**23,959**

The carrying amounts of trade and other receivables approximate their fair values.

At 31 December 2009 trade receivables arising from export contracts of RUB 2,774 million (2008: RUB 1,301 million) were pledged as security for borrowings.

As at 31 December 2009, trade and other receivables of RUB 2,840 million (2008: RUB 8,287 million) were past due but not impaired. These receivables relate to a number of independent customers and other debtors for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	31 December 2009	31 December 2008
Up to 3 months	1,306	7,897
3 to 12 months	1,534	390
Total	**2,840**	**8,287**

As at 31 December 2009 trade receivables of RUB 226 million (2008: RUB 70 million) and other receivables of RUB 227 million (2008: RUB 97 million) were individually impaired and fully provided for. The individually impaired receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

Movements in the Group's provision for impairment of trade receivables are as follows:

	2009	2008
At 1 January	**70**	**46**
Provision for receivables impairment	213	34
Receivables written off during the year as uncollectible	(22)	(1)
Unused amounts reversed	(35)	(9)
At 31 December	**226**	**70**

The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. Receivables that are neither past due nor impaired are considered to be of high credit quality. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2009	31 December 2008
RUB	16,783	18,948
USD	4,170	4,123
EUR	595	872
Other currencies	18	16
Total	**21,566**	**23,959**

14 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2009	31 December 2008
Cash on hand	9	11
RUB-denominated balances with banks	6,439	1,766
Foreign currency denominated balances with banks	2,857	2,687
Foreign currency denominated bank deposits	566	417
RUB-denominated bank deposits	2,456	20
Total	**12,327**	**4,901**

RUB-denominated bank deposits bear an annual interest rate of 4.0%-4.9% (2008: 0.7%). Bank deposits denominated in a foreign currency bear an annual interest rate of 0.2%-0.8% (2008: 0.1%).

Restricted cash

Restricted cash of RUB 176 million (2008: RUB 341 million) represents cash which is restricted under the terms of certain borrowings. At 31 December 2008 restricted cash included balances of cash with banks totalling RUB 100 million pledged for letters of credit. In addition, restricted cash as at 31 December 2008 included cash balances of RUB 46 million which were restricted due to a court injunction placed on the bank.

Restricted cash of RUB 200 million at 31 December 2008 which was included in other non-current assets represented a guarantee on a financial derivative agreement (Note 15).

15 Other non-current assets

	31 December 2009	31 December 2008
Restricted cash (Note 14)	—	200
Long-term receivables (Note 12)	1,597	317
Total financial assets within other non-current assets	**1,597**	**517**
Advances to suppliers of property, plant and equipment	8,012	6,906
Less: provision for impairment of advances to suppliers	(830)	(552)
Advances to suppliers of property, plant and equipment, net	7,182	6,354
Prepayment for Udokan copper deposit (Note 8)	—	4,500
Other	265	205
Total other non-current assets	**9,044**	**11,576**

16 Short-term and long-term borrowings

	31 December 2009	31 December 2008
Long-term borrowings	101,243	30,875
Short-term borrowings, including current portion of long-term borrowings of RUB 48,092 million (31 December 2008: RUB 36,634 million).	57,144	144,764
Bank overdraft	6,104	2,287
Total	**164,491**	**177,926**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31 December 2009	31 December 2008
RUB	61,189	84,499
USD	90,599	79,162
EUR	12,703	14,111
Other	—	154
Total	**164,491**	**177,926**

Bank borrowings bear floating interest rates ranging as follows:

Currency	Interest rate	31 December 2009		31 December 2008
USD	1.1%-6.7%	30,086	1.4%-6.7%	15,198
EUR	1.3%-4.3%	11,881	3.3%-6.3%	13,112
RUB	14%	20,917	—	—
		62,884		**28,310**

Bank borrowings bear fixed interest rates ranging as follows:

Currency	Interest rate	31 December 2009		31 December 2008
USD	5.7%-7.5%	60,513	5.1%-7.5%	63,964
EUR	3.0%-8.6%	822	3.0%-8.6%	999
RUB	7.5%-16.3%	40,272	7.5%-17.8%	84,499
Other	—	—	11.3%	154
		101,607		**149,616**
Total		**164,491**		**177,926**

At 31 December 2009 long-term borrowings of RUB 64,493 million (2008: RUB 8,027 million) and short-term borrowings of RUB 25,078 million (2008: RUB 107,235 million) were secured by property, plant and equipment, proceeds from revenue contracts and certain turnovers within the Group's entities (Notes 7, 13).

Long-term borrowings of RUB 309 million and short-term borrowings of RUB 255 million were secured by a Belgorod region administration guarantee at 31 December 2009 (2008: RUB 539 million and RUB 199 million, respectively).

At 31 December 2009 related parties of the Group guaranteed the Group's long-term borrowings of RUB 9,073 million (2008: nil). At 31 December 2008 a short-term loan of RUB 8,500 million was guaranteed by a related party. At 31 December 2009 this short-term loan was repaid according to schedule (Note 29).

At 31 December 2008 and 31 December 2009 12.5% of the Company's shares were pledged by the Company's owners as collateral for a long-term loan of the Group of RUB 21,422 million. At 31 December 2009, the loan was classified as a current portion of long-term borrowing.

At 31 December 2009 50% of long-term borrowings of RUB 20,916 million (2008: nil) were secured by State guarantees.

At 31 December 2009 bank overdrafts of RUB 5,401 million (2008: RUB 2,287 million) were secured by inventories and revenue contracts (Notes 11, 13).

Interest accrued on borrowings with maturities more than twelve months after the end of the reporting period of RUB 339 million (2008: RUB nil) and less than twelve months after the end of the reporting period of RUB 108 million (2008: RUB 610 million) are presented in non-current accounts payable and current accounts payable, respectively.

At 31 December 2009 the carrying amounts of borrowings exceeded their fair values by RUB 3,228 million (2008: RUB 4,785 million).

Long-term debts are repayable as follows:

	31 December 2009	31 December 2008
1 to 2 years	41,670	25,500
2 to 3 years	32,386	2,963
3 to 4 years	24,806	2,249
4 to 5 years	987	66
Over 5 years	1,394	97
Total	**101,243**	**30,875**

Under the terms of its loan agreements the Group is required to comply with a number of covenants, including restrictions on the level of financial indebtedness, prohibition of further capital financing, dividend distribution, obtaining new credit facilities, issuing guarantees, restrictions with regard to pledged assets and the disposal of assets, and certain other requirements.

At 31 December 2008 the Group was not in compliance with certain covenants of its bank loans, including covenants requiring the Group to maintain its equity at a certain level. Consequently, the banks were contractually entitled to request early repayment of the outstanding RUB 88,990 million, including bank loans of RUB 15,639 million with original maturities of less than twelve months after the end of the reporting period. Furthermore, some of the Group's loan agreements include cross-default provisions which, in the event of non-compliance with covenants of other loans, entitle the banks to request early repayment of borrowings of RUB 2,336 million, including borrowings of RUB 2,234 million with original maturities of less than twelve months after the end of the reporting period. As a result of this non-compliance and these cross-default provisions, borrowings with original maturities of more than twelve months after the end of the reporting period of RUB 73,453 million were classified as short-term borrowings.

During 2009 the Group discussed with its lenders additional facilities, refinancing of certain existing loans, waivers in relation to breached covenants and amendments to existing facilities. In December 2009 the Group successfully completed negotiations of loans terms with the lenders, signed amendments to the respective loan agreements and obtained waivers so as to address the situation with covenants violation and to ensure the Group's compliance with covenants. The amended terms of the loan agreements include the provision of a grace period for covenants testing and/or changes in financial covenants levels and interest rates and impose additional restrictions on the Group. These restrictions include, but are not limited to, dividends distribution, capital investments, acquisitions and disposals and total amount of borrowings.

17 Income taxes

Income tax charge comprises the following:

	2009	2008
Current income tax charge	2,788	19,155
Deferred tax credit	(1,053)	(4,931)
Income tax charge	**1,735**	**14,224**

The income tax rate applicable to the majority of the Group's income is 20% (2008: 24%).

A reconciliation between the expected and the actual taxation charge is provided below.

	2009	2008
Profit before income tax	**15,651**	**22,468**
Theoretical tax charge at statutory rate (2009: 20%; 2008: 24%)	3,130	5,392
Tax effect of items which are not deductible or assessable for taxation purposes:		
Withholding tax on dividends paid	38	122
Unrecognised deferred tax asset	430	515
Tax effect of utilisation of previously unrecognised tax losses	(359)	—
Impairment of prepayment for an investment	—	337
Impairment of goodwill	—	5,124
Fair value loss on financial liability	—	4,002
Gain on extinguishment of financial liability	(2,553)	
Non deductible social costs	158	285
Non deductible remuneration for employees	252	60
Non deductible charitable donations	93	364
Non deductible other expenses	233	1,334
Effect of different tax rates in countries in which the Group operates	(122)	373
Adjustment in respect of prior years	435	—
Remeasurement of deferred tax due to change in tax rate		(3,684)
Income tax charge	**1,735**	**14,224**

As a result of a reduction of corporate income tax rate from 24% to 20%, enacted on 26 November 2008 with effect from 1 January 2009, the relevant deferred tax balances at 31 December 2008 were remeasured.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of movements in these temporary differences is detailed below and is recorded at the rate of 20%.

	1 January 2009	Credited/(charged) to profit or loss	31 December 2009
Tax effect of deductible temporary differences:			
Receivables	32	149	181
Accounts payable and other liabilities	53	42	95
Other	174	254	428
Tax effect of taxable temporary differences:			
Property, plant and equipment	(6,452)	(198)	(6,650)
Intangible assets and mineral rights	(11,759)	484	(11,275)
Inventories	(30)	(49)	(79)
Borrowings	(452)	371	(81)
Total net deferred tax liability	**(18,434)**	**1,053**	**(17,381)**

	1 January 2008	Credited/(charged) to profit or loss	31 December 2008
Tax effect of deductible temporary differences:			
Receivables	37	(5)	32
Accounts payable and other liabilities	106	(53)	53
Other	—	174	174
Tax effect of taxable temporary differences:			
Property, plant and equipment	(8,551)	2,099	(6,452)
Intangible assets and mineral rights	(14,717)	2,958	(11,759)
Inventories	(63)	33	(30)
Borrowings	(123)	(329)	(452)
Other	(54)	54	—
Total net deferred tax liability	**(23,365)**	**4,931**	**(18,434)**

At 31 December 2009, the current portion of the deferred tax liability amounted to RUB 1,734 million (31 December 2008: RUB 1,621 million), the current portion of the deferred tax asset amounted to RUB 430 million (31 December 2008: RUB 259 million).

The Group has not recognised a deferred tax liability in respect of temporary differences associated with undistributed earnings of subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future. At 31 December 2009, undistributed earnings of subsidiaries totalled RUB 119,469 million including earnings of RUB 108,315 million which are subject to tax rate on intergroup dividends of 0% (2008: RUB 113,689 million and RUB 104,509 million, respectively).

18 Accounts payable

	31 December 2009	31 December 2008
Trade payables	7,787	9,407
Finance lease liability	—	37
Other financial payables	1,537	847
Total financial liabilities within trade and other payables	**9,324**	**10,291**
Advances from customers	600	518
Wages payable	1,352	1,230
Accrued liabilities and other payables	649	693
Total accounts payable	**11,925**	**12,732**

The carrying amounts of trade and other payables approximate their fair values.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	31 December 2009	31 December 2008
RUB	8,491	9,968
USD	2,374	1,477
EUR	1,034	1,208
Other currencies	26	79
Total	**11,925**	**12,732**

19 Sales

	2009	2008
Steel and rolled products	82,425	119,665
Iron ore pellets	27,279	33,547
Iron ore	14,288	28,151
Hot briquetted iron	14,304	20,696
Pig iron	5,832	10,181
Transportation services	1,496	3,848
Scrap metal	255	1,222
Other revenue	4,493	12,637
Total	**150,372**	**229,947**

20 Cost of sales

	2009	2008
Materials and components	43,382	74,544
Energy costs	18,147	16,276
Labour costs	14,745	15,355
Depreciation and amortisation	10,027	9,588
Amortisation of mineral rights	2,048	2,048
Land, property and other taxes	2,213	1,978
Repairs and maintenance	600	930
Other	2,589	3,018
Total	**93,751**	**123,737**

21 Distribution expenses

	2009	2008
Transportation expenses	30,286	14,096
Labour costs	584	976
Packing materials	267	384
Custom duties	187	267
Depreciation	187	256
Advertising and marketing research	63	89
Other expenses	828	1,201
Total	**32,402**	**17,269**

22 General and administrative expenses

	2009	2008
Labour costs	4,000	4,699
Rent	1,359	764
Provision for impairment of accounts receivable	589	600
Legal and consultancy expenses	257	540
Bank charges	487	505
Repairs and maintenance	245	288
Depreciation	254	271
Security	209	219
Materials and fuel	124	133
Business trips	91	128
Other	1,114	1,308
Total	**8,729**	**9,455**

23 Other operating (income)/expenses—net

	2009	2008
Net gain on available-for-sale financial asset	(985)	(5,944)
Foreign exchange gain on operating activities, net	(788)	(607)
Release of provision for uncertain tax positions	(169)	(167)
Income from banking activity	(90)	(70)
Impairment of prepayment for an investment	—	1,406
Charity expenses	597	1,320
Social costs	501	727
Loss on disposal of property, plant and equipment	260	211
Penalties under sales contract	(482)	—
Other	817	1,188
Total	**(339)**	**(1,936)**

24 Finance costs

	2009	2008
Interest expense on borrowings	12,680	10,420
Waiver fees and other charges	964	—
Unwinding of discounting	188	202
Interest expense on defined benefits obligations	594	370
Other finance charges	206	12
Total	**14,632**	**11,004**

25 Share capital and earnings per share

Share capital of the Company consists of one class of shares, ordinary shares. All issued ordinary shares are fully paid. In August 2008 the Company finalised its ordinary share split. As a result of the split, the number of ordinary shares increased from 1,000 thousand shares to 79,699,000 thousand shares with par value of RUB 0.05 per share. The share split did not affect the Company's share capital. Included in the share capital is an adjustment for the effect of hyperinflation of RUB 1,542 million.

	Par value, RUB	Number of outstanding shares, in thousands	Ordinary shares, RUB million	Issued and fully paid share capital, RUB million
At 1 January 2008	3,985	1,000	5,527	5,527
At 31 December 2008	0.05	79,699,000	5,527	5,527
At 31 December 2009	0.05	79,699,000	5,527	5,527

The total authorised number of ordinary shares is 159,398,000 thousand shares with a par value of RUB 0.05 per share (2008: RUB 0.05 per share).

All ordinary shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the Company's annual and general meetings.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts). The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. In 2009, the Company's net statutory loss as reported in the published annual financial statements was RUB 1,198 million (2008: net statutory profit of RUB 43,397 million) and the closing balance of the accumulated profit, including the current year net statutory profit, was RUB 22,004 million (2008: RUB 23,319 million). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

Dividends declared and paid during the year were as follows:

	2009	2008
Dividends payable at 1 January	**—**	**—**
Dividends declared during the year	—	21,999
Dividends paid during the year	—	(21,999)
Dividends payable at 31 December	**—**	**—**
Dividends per share declared during the year in RUB	**—**	**0.28**

All dividends were declared and paid in Russian roubles.

Earnings per share

The Company has no dilutive potential ordinary shares. Therefore, the diluted earnings per share equals the basic earnings per share. Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Profit for the year from operations attributable to ordinary shareholders	13,855	7,743
Weighted average number of ordinary shares in issue (thousands)	79,699,000	79,699,000
Basic and diluted earnings per ordinary share from operations (RUB per share)	**0.17**	**0.10**

26 Employee benefit obligations

The Group's companies operate both funded and unfunded post-employment benefits plans. The principal assumptions used for actuarial valuations were as follows:

	2009	2008
Discount rate for benefits at accumulation phase	9.0%	9.0%
Discount rate for benefits at distribution phase	9.0%	9.0%
Expected rate of return on assets	10.0%	10.0%
Expected rate of salary increase	8.0%	8.0%
Inflation rate	6.5%	6.5%
Future pension increases	6.5%	6.5%

The amounts recognised in the statement of financial position were determined as follows:

	2009	2008
Present value of funded obligations	492	452
Fair value of plan assets	(80)	(128)
	412	324
Present value of unfunded obligations	6,305	4,906
Unrecognised past service cost	(620)	(89)
Liability in the statement of financial position	**6,097**	**5,141**

The movement in the fair value of the plan asset over the year is as follows:

	2009	2008
Asset at beginning of the year	**128**	**116**
Contributions	70	101
Actuarial loss	(29)	(19)
Expected return on plan assets	13	12
Payments	(102)	(82)
Asset at end of the year	**80**	**128**

The movement in defined benefit obligations over the year is as follows:

	2009	2008
Obligation at beginning of the year	**5,358**	**5,684**
Service cost	235	234
Interest cost	594	370
Actuarial gain	(334)	(483)
Benefits paid	(368)	(265)
Past service cost	1,312	9
Disposal of subsidiary	—	(92)
Gain on curtailment	—	(111)
Other	—	12
Obligation at end of the year	**6,797**	**5,358**

The amounts recognised in profit or loss are as follows:

	2009	2008
Service cost	235	234
Interest cost	594	370
Expected return on assets	(13)	(12)
Past service cost	781	23
Disposal of subsidiary	—	(92)
Gain on curtailment	—	(99)
Other	—	14
Net periodic benefit cost	**1,597**	**438**

	2009	2008
Present value of defined benefit obligations	6,797	5,358
Fair value of plan assets	(80)	(128)
Deficit in plan	6,717	5,230
Experience adjustments on plan liabilities	(308)	557
Experience adjustments on plan assets	29	19

The principal assumptions used in valuation of employee benefit obligations are the discount rate and inflation rate. Were the discount rate used to differ by 0.75% from management's estimates, the carrying amount of employee benefit obligations would be an estimated RUB 535 million (2008: RUB 439 million) lower or RUB 619 million (2008: RUB 509 million) higher. Were the inflation rate used to differ by 0.75% from management's estimates, the carrying amount of employee benefit obligations would be an estimated RUB 506 million (2008: RUB 397 million) lower or RUB 581 million (2008: RUB 458 million) higher.

27 Acquisitions and disposals

There were no acquisitions and material disposals in 2009.

Ferrous Metal Company Limited

In August 2008, the Group acquired a 100% interest in Ferrous Metal Company Limited (FMC), an iron ore and steel products trader registered in Gibraltar, from its shareholder and related parties for a cash consideration of RUB 17,584 million (USD 750 million).

Management commissioned an independent assessment of the fair values of the assets and liabilities acquired, which were determined as follows:

	Carrying amount immediately before the acquisition	Fair value of identified assets and liabilities
Cash and cash equivalents	1,386	1,386
Trade and other receivables	9,743	9,743
Inventories	6,511	6,511
Intangibles (backlog)	—	1,524
Property, plant and equipment	5	5
Bank borrowings	(13,515)	(13,515)
Trade and other payables	(2,753)	(2,753)
Net assets acquired	**1,377**	**2,901**
Goodwill on acquisition		14,683
Total purchase consideration		**17,584**
Less: cash and cash equivalents of subsidiary acquired		1,386
Cash outflow on acquisition		**16,198**

The acquired business contributed revenues of RUB 36,959 million and net loss of RUB 642 million to the Group for the period from the acquisition to 31 December 2008. The net loss from the acquired business reflects the deteriorating economic situation in the metals industry in the fourth quarter of 2008.

If the acquisition had occurred on 1 January 2008, the Group's revenue and profit for the year ended 31 December 2008 would have been RUB 304,745 million and RUB 13,149 million, respectively. The goodwill was primarily attributable to the margin of the trading company, which will now accrue to the Group.

OOO KB Ferrobank

In January 2008, the Group acquired a 100% interest in OOO KB Ferrobank (prior to 5 May 2009, named OOO KB SVIB), a commercial bank, from a related party for a cash consideration of RUB 616 million.

The identified assets, liabilities and goodwill are as follows:

	Carrying amount immediately before the acquisition	Attributed fair value
Cash and cash equivalents	1,166	1,166
Trading securities	1,080	1,080
Due from other banks	904	904
Loans and advances to customers	1,103	1,103
Property, plant and equipment	24	24
Other assets	54	120
Customer accounts	(3,740)	(3,740)
Debt securities in issue	(190)	(190)
Other liabilities	(32)	(32)
Net assets acquired	**369**	**435**
Goodwill and other intangible assets		181
Total purchase consideration		**616**
Less: cash and cash equivalents of subsidiary acquired		1,166
Cash inflow on acquisition		**550**

Other acquisitions

In April 2008, the Group acquired a 100% interest in OOO Vtormetproekt for a cash consideration of RUB 119 million. The acquired subsidiary contributed revenue of RUB 338 million and net profit of RUB 7 million to the Group for the period from acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's revenue and profit for the year ended 31 December 2008 would not have changed significantly. The net assets acquired totalled RUB 54 million. The Group recognised goodwill in respect of the assets acquired in the amount of RUB 64 million.

Disposals

In 2008 the Group fully disposed of its interests in OOO Agrofirma Lebed, OOO Agrofirma Gornyak, OOO Tait, OOO Hotel Zheleznogorsk, OOO Starooskolski Alcohol Plant Lux, OOO Uralsky Service, OOO Agrofirma Metallurg and disposed of an 80% interest in OAO Ramensky Bread-Making Plant to related parties for a total consideration of RUB 753 million. The net assets of the disposed subsidiaries at the dates of disposal totalled RUB 1,031 million and the Group recorded a loss from the disposal of RUB 278 million within other operating losses. The total cash inflow arising from the disposal of these subsidiaries, net of cash disposed, was RUB 586 million.

In July 2008, the Group's interest in OSMiBT was diluted from 100% to 40% through an additional cash contribution to the share capital by a related party. The Group recognised a loss on disposal of a subsidiary of RUB 586 million in the statement of comprehensive income.

28 Assets held for sale

In June 2008, the Group entered into agreements with related parties to sell a 99% interest in OOO KB Ferrobank (prior to 5 May 2009, named OOO KB SVIB) for a total consideration of RUB 613 million. The Group received an advance in full. The plan is to complete the sale transaction during the first half of 2010. OOO KB Ferrobank's assets and liabilities represent a disposal group. OOO KB Ferrobank is not a discontinued operation, as it does not represent a major line of business.

The major classes of assets and liabilities of the disposal group are as follows:

Assets classified as held for sale:	**Carrying amount as at 31 December 2009**	**Carrying amount as at 31 December 2008**
Cash and cash equivalents	2,311	1,450
Restricted cash	108	14
Loans advanced to customers	1,792	1,458
Less impairment for loans advanced	(179)	—
Trading securities	269	1,150
Financial assets held to maturity	808	—
Financial assets at fair value through profit or loss	958	—
Repurchase receivables	—	587
Goodwill arising from acquisition	181	181
Other assets	82	167
Assets with the Group's entities eliminated on consolidation	(679)	(613)
Total assets of the disposal group	**5,651**	**4,394**
Liabilities directly associated with assets classified as held for sale:		
Bank customer accounts	5,305	3,976
Promissory notes payable	138	169
Subordinate loan received	130	130
Other current liabilities	13	52
Liabilities with the Group's entities eliminated on consolidation	(679)	(613)
Total liabilities of the disposal group	**4,907**	**3,714**

In May-June 2010 the Group disposed of 70% interest in OOO KB Ferrobank (Note 34).

29 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include entities that are significantly influenced by owners of the Company. The owners of the Company are disclosed in Note 1.

The nature of the relationships with related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2009 and 2008 are detailed below:

(i) Balances and transactions with other related parties

Year-end balances:	**31 December 2009**	**31 December 2008**
Trade accounts receivable	320	319
Advances issued	1,574	1,588
Other receivables	1,241	366
Trade accounts payable	(939)	(458)
Advances received	(16)	(18)
Other accounts payable	(614)	(614)

Transactions carried out during the year:	**2009**	**2008**
Sales of goods and services	1,348	66,472
Sales of property, plant and equipment	6	402
Purchases of raw materials and consumables	700	951
Purchases of property, plant and equipment	90	390
Acquisition of available-for-sale financial assets	—	6,516
Acquisition of assets held for sale	—	619
Acquisition of subsidiaries (Note 27)	—	8,792
Disposal of subsidiaries (Note 27)	—	753
Disposal of available-for-sale financial assets	—	18,920
Disposal of interest in subsidiaries	767	365
Purchase of services	2,037	2,289
Interest expense on interest-bearing accounts payable	66	—

Loans advanced to other related parties:	**2009**	**2008**
Beginning of the year	**29,841**	**1,074**
Loans advanced during year	—	27,582
Loans advanced to subsidiaries acquired	—	(130)
Repayments of loans advanced	(10,390)	(9,221)
Repayments of loans advanced by a party which ceased to be related	—	(260)
Settlement of loans advanced by promissory notes	(13,887)	—
Conversion of promissory notes to loans	—	9,648
Forex gain	2,129	936
Interest income accrued	2,124	433
Interest received with promissory notes	(90)	—
Interest received	(847)	(221)
End of the year	**8,880**	**29,841**

Loans received from other related parties:	**2009**	**2008**
Beginning of the year	**261**	**97**
Loans received during the year	7	8,108
Repayments of loans received	(86)	(174)
Offset against promissory notes	—	(8,270)
Forex gain	6	500
Interest charged	9	9
Interest paid	(9)	(9)
End of the year	**188**	**261**

In October 2008 the Group acquired listed equity securities for a total consideration of USD 650 million (or RUB 16,932 million at the date of acquisition) from the Company's shareholder (USD 400 million or RUB 10,416 million) and other related party (USD 250 million or RUB 6,516 million). The acquired securities

were classified as available-for-sale financial assets (Note 10). In November 2008, the securities were sold to other related party for a consideration of USD 650 million. No gain or loss was recognised as a result of these transactions. The differences between the fair values at acquisition and disposal dates and the respective transaction prices of the securities were recognised in equity as transactions with owners.

On acquisition, the consideration for the securities was paid in cash. On disposal, the transaction was settled by USD-denominated promissory notes issued by the securities' acquirer. In November-December 2008, the Group assigned the promissory notes received as follows: USD 300 million was used to settle a loan payable to other related party; USD 350 million was converted into a USD-denominated loan to the acquirer. The loan was to mature in November 2011 and bore interest of 10.25%. The loan was fully settled ahead of schedule in February 2009 by RUB-denominated promissory notes.

(ii) Balances and transactions with owners of the Company

Transactions carried out with owners of the Company:	2009	2008
Acquisition of available-for-sale financial assets	—	10,903
Acquisition of subsidiaries (Note 27)	—	8,792

(iii) Balances and transactions with associates

Year-end balances arising from transactions with associates:	31 December 2009	31 December 2008
Trade accounts receivable	10	14
Other receivables	5	—

Transactions carried out with associates:	2009	2008
Sales of goods and services	43	51
Purchases of raw materials and consumables	90	—

(iv) Key management personnel compensation

Compensation of key management personnel consists of remuneration paid to managing directors of the Group's main subsidiaries and to members of the Company's Boards of Directors and its main subsidiaries. Compensation comprises annual remuneration and a performance bonus contingent on operating results.

Total key management personnel compensation included in general and administrative expenses amounted to RUB 301 million (2008: RUB 620 million).

(v) Guarantees issued

At 31 December 2009, the Group had outstanding guarantees issued in respect of obligations of other related parties of RUB 4,497 million (2008: RUB 29,302 million).

(vi) Guarantees received

At 31 December 2008, a short-term loan of RUB 8,500 million was guaranteed by other related party. By 31 December 2009 the loan was settled and the guarantee ceased.

At 31 December 2009, long-term borrowings of RUB 9,073 million (2008: RUB nil) was guaranteed by other related party.

(vii) Operating lease

In August 2008 the Group entered into a rent agreement with other related party to lease office premises for 10 years. The total lease payments for the 10-year period amount to RUB 9,849 million. In 2009 lease charges amounted to RUB 979 million (2008: RUB 434 million).

(viii) Acquisition of additional interest in subsidiaries

In 2008 the Group acquired interests in its subsidiaries for a total consideration of RUB 170 million, including consideration of RUB 21 million related to acquisitions from other related parties.

30 Liability to the regional administration

In April 2005 OAO Ural Steel, a subsidiary of the Group, entered into a long-term agreement with the Orenburg region administration. In accordance with the agreement, the Group is obliged to pay EUR 134 million in financial support to the administration by December 2034. The liability was recorded at the net present value of the amounts to be paid. The discount rate used to calculate the net present value of liability was 11%.

Liability to the regional administration—payments:	31 December 2009	31 December 2008
Not later than 1 year	135	129
Later than 1 year and not later than 5 years	675	572
Later than 5 years	5,255	4,822
Future finance charges	(4,276)	(3,865)
Present value of liability	**1,789**	**1,658**

The present value of the liability matures as follows:	31 December 2009	31 December 2008
Not later than 1 year	122	118
Later than 1 year and not later than 5 years	475	414
Later than 5 years	1,192	1,126
	1,789	**1,658**

31 Contingencies, commitments and operating risks

(i) Contractual commitments

As at 31 December 2009 the Group had contractual commitments of RUB 6,331 million (2008: RUB 20,907 million) for the purchase of property, plant and equipment.

(ii) Legislation

Russian tax, currency, civil and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

(iii) Tax contingencies

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a different position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The guidance on reviewing tax cases issued by the Supreme Arbitration Court to lower courts provided a systemic roadmap for anti-avoidance claims and increased the level of the tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when the review starts. Under certain circumstances, reviews may cover longer periods.

Current Russian transfer pricing legislation provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions subject to Russian transfer pricing rules include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether they are

performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice in this regard was contradictory.

Tax liabilities arising from intercompany transactions of the Group are determined using actual transaction prices. It is possible, given the evolving interpretations of Russian transfer pricing rules and changes in the approaches taken by the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Because of the brief history of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; but it may be significant to the financial position and/or the overall operations of the Group.

Furthermore, Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of these uncertain areas that reduce the overall tax rate of the Group. As noted above, tax positions adopted by the Group's management may be scrutinised as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; but it may have a significant impact on the Group.

In addition to the above transfer pricing and permanent establishment matters management estimates that the Group has possible obligations from exposure to other than remote tax risks of RUB 3,511 million (2008: RUB 4,445 million). These exposures primarily relate to taxes (profits tax and VAT), penalties and late payment interest arising from reorganisation of the Group and intercompany charges.

(iv) Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group had outstanding issued guarantees for obligations of related parties in the amount of RUB 4,497 million (2008: RUB 29,302 million) and obligations of third parties of RUB 50 million (2008: RUB 68 million). The maximum exposure to credit risk arising from guarantees issued is limited to the amounts guaranteed.

At 31 December 2009, guarantees of RUB 3,960 million were issued for obligations of related and third parties are with maturities less than twelve months after the balance sheet date and guarantees of RUB 587 million were issued for obligations with maturities more than twelve months after the end of the reporting period.

The Group does not expect any cash outflow resulting from the guarantees provided.

(v) Insurance policies

The Group holds insurance policies on its assets and operations, including insurance policies covering export shipments, as well as in respect of public liability and other insurable risks.

(vi) Environmental matters

Environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under the existing legislation, management believes that there are no significant liabilities for environmental damage.

(vii) Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(viii) Operating environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RUB 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of corporate debt denominated in foreign currency, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Despite the fact that since the second half of 2009 the global economy has demonstrated certain indications of recovery, management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

32 Derivative financial instruments

In 2008 the Group entered into derivative financial contracts such as foreign exchange forwards and options. Net loss of RUB 16,691 million arising from realised forward exchange contracts and from changes in the fair values of other derivatives was recognised in operating profit and loss in the statement of comprehensive income. At 31 December 2008, the Group's total financial liability related to derivative financial instruments amounted to RUB 15,969 million.

In February 2009, the Group signed a termination agreement for all derivative financial instruments held at 31 December 2008. In accordance with the agreement, the Group has to pay a USD 109 million (RUB 3,204 million at the exchange rate at the date of derecognition) cancellation fee, of which USD 20 million was paid in February 2009 and USD 89 million is to be paid in equal monthly instalments by July 2011. The transaction has been accounted for as an extinguishment of the financial liability, resulting in a net gain of

RUB 12,765 million. The date of derecognition was defined by the termination agreement as 11 January 2009. At 31 December 2009 the outstanding balance of the cancellation fee was RUB 1,635 million, of which RUB 481 million was included in non-current accounts payable and RUB 1,154 million was included in current accounts payable. The accounts payable balance bears 8% interest per annum.

At 31 December 2009 the fair value of accounts payable approximates their carrying amounts.

33 Financial risk management

Financial risk factors

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risks comprise market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Financial risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Concentrations of risk

Concentrations of financial risk arise when financial instruments with identical characteristics are influenced in the same way by changes in economic and other factors. The identification of risk concentrations is subject to discretionary assessment. The general purpose of risk management in the Group is to reduce and control risk concentrations. With respect to credit risk, this is reflected in the requirement to maintain a credit portfolio with a sound sectoral and geographical balance and a syndication policy that guides the exposure to individual customers and industries. With respect to market risk, concentration risk is restricted by limits ensuring that exposure is divided among number of instruments, ensuring sound diversification to meet changes in share prices, exchange rates and interest rate levels.

(a) Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated—for example, changes in interest rates and changes in foreign currency rates.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EUR. Foreign exchange risk arises from recognised assets and liabilities and investments in foreign operations.

The Group does not have formal arrangements to mitigate foreign exchange risks of its operations. However, management monitors the net monetary position of the Group's financial assets and liabilities denominated in foreign currencies on a regular basis.

The analysis below includes only monetary assets and liabilities and does not include foreign exchange risk of financial derivatives which is discussed in Note 32. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

At 31 December 2009, if the Russian rouble had weakened/strengthened by 10% (2008: 30%) against the US dollar with all other variables held constant, post-tax profit for the year would have been RUB 6,977 million (2008: RUB 14,862 million) lower /higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated borrowings and loans advanced to related parties. Profit is more sensitive to movements in US dollar exchange rates in 2009 than 2008 because of the increased amount of US dollar-denominated borrowings and decreased amount of US dollar-denominated loans advanced.

At 31 December 2009 if the Russian rouble had weakened/strengthened by 5% (2008: 30%) against the EUR with all other variables held constant, post-tax profit for the year would have been RUB 537 million (2008: RUB 3,715 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade receivables, cash and cash equivalents and borrowings. Profit is less sensitive to movements in EUR exchange rates in 2009 than 2008 because of the decreased amount of EUR-denominated borrowings.

(ii) Price risk

The Group has limited exposure to equity and debt securities price risk in respect of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. There are no formal procedures established to manage the price risk. Transactions in equity and debt securities are authorised by the Board of Directors.

At 31 December 2009, the revaluation reserve in equity is not sensitive to variability of equity and debt securities price risk due to the sale of corporate shares previously classified as available-for-sale. At 31 December 2008, if equity and debt prices at that date had been 60% higher/lower with all other variables held constant, the revaluation reserve in equity would have been RUB 141 million lower/higher, mainly as a result of the revaluation of corporate shares classified as available-for-sale.

(iii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring current market interest rates and analysing the Group's interest-bearing position is performed by the Group's finance department as a part of the interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The interest rate risk profile of the Group was as follows:

	31 December 2009	31 December 2008
Fixed rate instruments		
Financial assets	10,608	30,608
Financial liabilities	(103,396)	(153,597)
	(92,788)	**(122,989)**
Variable rate instruments		
Financial assets	—	—
Financial liabilities	(62,857)	(25,996)
	(62,857)	**(25,996)**

All other financial instruments are non-interest bearing.

Fair value sensitivity analysis for fixed rate instruments

The Group does not have significant fixed rate financial assets carried at fair value. Therefore, a change in interest rates at the end of the reporting period would not affect the Group's comprehensive income significantly.

Cash flow sensitivity analysis for variable rate instruments

Cash flow interest rate risk sensitivity analysis is primarily based on LIBOR and EURIBOR interest rate volatility and the following assumptions:

- Profit or loss impacts assume adjustments to interest income and expense for a 12-month period.
- The balance of interest bearing financial instruments at the end of the reporting period is representative of the balance for the year as a whole and hypothetical interest rate movements are deemed to apply for the entire reporting period.

At 31 December 2009, if interest rates on USD-denominated borrowings had been 100 basis points (2008: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been RUB 241 million (2008: RUB 103 million) lower/higher as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

At 31 December 2009, if interest rates on EUR-denominated borrowings had been 100 basis points (2008: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been RUB 95 million (2008: RUB 105 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

There would be no material effect on equity reserves other than those relating directly to movements in the profit or loss.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and bank deposits, loans advanced and financial guarantees issued. The Group has no other significant concentrations of credit risk.

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the statement of financial position is as follows:

	31 December 2009	31 December 2008
Cash and cash equivalents	12,327	4,901
Restricted cash	176	687
Trade and other receivables	16,359	15,236
Loans advanced	7,612	30,069
Total on-balance sheet exposure	**36,474**	**50,893**
Financial guarantees—amounts of guaranteed loans (Note 31)	4,547	29,370
Total maximum to credit risk	**41,021**	**80,263**

The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Cash and cash equivalents. Cash, cash equivalents and short-term deposits are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. No bank balances and term deposits are past due or impaired.

Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2009		**31 December 2008**	
	Bank balances payable on demand	**Term deposits**	**Bank balances payable on demand**	**Term deposits**
Rating				
Low credit risk (A-AAA)	2,570	505	2,099	407
Medium credit risk (B-BBB)	6,438	2,118	1,829	30
High credit risk (C-CCC)	—	—	1	—
Unrated	297	399	535	—
Total	**9,305**	**3,022**	**4,464**	**437**

Trade and other receivables. The Group assesses the credit quality of customers taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Group provides it with purchase and payment terms. The Group's commercial department reviews an ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large consumers of iron ore and steel products which have a similar credit risk profile for the Group. The Group does not manage its customers by class for credit risk management purposes.

The Group is exposed to concentrations of credit risk. At 31 December 2009, the Group had 10 counterparties (2008: 8 counterparties) with aggregated receivables balances of over RUB 400 million. The total aggregate amount of these balances was RUB 9,974 million (2008: RUB 6,315 million) or 61% (2008: 41%) of the gross amount of trade and other receivables.

Loans advanced. Included in loans advanced are loans to entities related to the owners of the Group of RUB 7,436 million (2008: RUB 29,580 million) (Note 12 and Note 29). The Group does not hold any collateral as security for loans issued to related parties. None of the loans advanced is past due or impaired. Management does not expect any losses from non-performance by these entities.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for managing liquidity risk, including funding, settlements, and related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the finance department.

The table below analyses the Group's financial liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

As at 31 December 2009	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 year**
Borrowings	70,742	88,431	30,181	1,575
Trade and other payables	9,294	664	188	—
Liability to the regional administration	135	324	351	5,255
	78,464	**89,842**	**31,133**	**7,817**

As at 31 December 2008	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 year**
Borrowings*	161,038	30,341	2,475	106
Derivative financial instrument**	4,479	6,648	4,842	—
Finance lease liability	37	—	—	—
Trade and other payables	10,254	—	—	—
Liability to the regional administration	129	277	295	4,822
	175,937	**37,266**	**7,612**	**4,928**

* Included in the "Less than 1 year" group are borrowings of RUB 73,453 million which are presented as short-term borrowings due to non-compliance with certain loan covenants, as described in Note 16.

** Derivative financial instruments are presented at fair value in the relevant maturity groups at the end of the reporting period.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period. The liquidity risk associated with guarantees issued is disclosed in Note 31 (iv).

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group capital management includes compliance with externally imposed minimal capital requirements arising from the Group's borrowings. The Group determines capital as total equity as shown in the consolidated statement of financial position.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale investments are carried on the consolidated statement of financial position at their fair value, which is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. At 31 December 2009 and 31 December 2008, the carrying amounts of trade and other payables approximate their fair values. Refer to Note 16 for the estimated fair values of borrowings.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value was determined using valuation techniques.

34 Events after the reporting period

Disposal of subsidiary classified as assets held for sale

In May-June 2010 the Group disposed of 70% interest in OOO KB Ferrobank to related parties for a total consideration of RUB 428 million.

Repayment of borrowings

In June 2010 the Group repaid RUB 11,421 million of its borrowings ahead of schedule.

OAO Holding Company METALLOINVEST

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2010

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Independent Auditor's Report

To the Shareholders of OAO Holding Company METALLOINVEST:

We have audited the accompanying consolidated financial statements of OAO Holding Company METALLOINVEST and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

15 April 2011
Moscow, Russian Federation

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White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
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	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets:			
Property, plant and equipment	7	99,265	94,747
Intangible assets	8	18,772	18,815
Mineral rights		53,251	55,299
Goodwill	8	11,714	11,714
Investments in associates	9	2,273	2,256
Loans advanced	11	1,250	6,934
Other non-current assets	14	4,216	9,044
Total non-current assets		**190,741**	**198,809**
Current assets:			
Inventories	10	23,085	17,077
Trade and other receivables	12	28,412	21,566
Loans advanced	11	2,746	678
Current income tax prepayment		266	1,277
Restricted cash	13	—	176
Cash and cash equivalents	13	4,633	12,327
		59,142	**53,101**
Assets held for sale	27	—	5,651
Total current assets		**59,142**	**58,752**
TOTAL ASSETS		**249,883**	**257,561**
EQUITY			
Share capital	24	5,527	5,527
Retained earnings and other reserves		68,975	40,123
Capital and reserves attributable to the Company's owners		**74,502**	**45,650**
Non-controlling interests		2,703	2,354
TOTAL EQUITY		**77,205**	**48,004**

	Note	31 December 2010	31 December 2009
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	15	85,726	101,243
Deferred income tax liability	16	19,047	17,381
Liability to the regional administration	29	1,583	1,667
Accounts payable	31	68	820
Employee benefit obligations	26	8,703	6,097
Total non-current liabilities		**115,127**	**127,208**
Current liabilities:			
Short-term borrowings	15	40,651	63,248
Accounts payable	17,31	13,355	11,925
Income tax payable		1,286	654
Value added tax and other taxes payable		2,122	1,493
Liability to the regional administration	29	137	122
		57,551	**77,442**
Liabilities directly associated with assets held for sale	27	—	4,907
Total current liabilities		**57,551**	**82,349**
TOTAL LIABILITIES		**172,678**	**209,557**
TOTAL LIABILITIES AND EQUITY		**249,883**	**257,561**

Approved for issue and signed on 15 April 2011.

A.V. Varichev
Chief Executive Officer
OAO Holding Company METALLOINVEST

E.L. Potapov
Chief Executive Officer
OOO Management Company
METALLOINVEST

The accompanying notes on pages F-69 to F-110 are an integral part of these consolidated financial statements.

	Note	2010	2009
Sales	18	219,668	150,372
Cost of sales	19	(110,386)	(93,751)
Gross profit		**109,282**	**56,621**
Distribution expenses	20	(33,060)	(32,402)
General and administrative expenses	21	(10,846)	(8,729)
Other operating (expenses)/income—net	22	(2,710)	339
Operating profit		**62,666**	**15,829**
Finance income		880	2,367
Finance costs	23	(14,767)	(14,632)
Foreign exchange gain/(loss) from borrowings		216	(520)
Gain on extinguishment of financial liability	31	—	12,765
Share of net loss of associates	9	(221)	(158)
Profit before income tax		**48,774**	**15,651**
Income tax charge	16	(12,340)	(1,735)
Profit for the year		**36,434**	**13,916**
Other comprehensive income			
Currency translation differences		(202)	(661)
Fair value gain on available-for-sale assets		—	1,263
Actuarial (loss)/gain		(521)	305
Gain on available-for-sale assets transferred to the statement of comprehensive income		—	(1,010)
Other comprehensive income for the year		**(723)**	**(103)**
Total comprehensive income for the year		**35,711**	**13,813**
Profit is attributable to:			
Owners of the Company		36,085	13,855
Non-controlling interests		349	61
		36,434	**13,916**
Total comprehensive income is attributable to:			
Owners of the Company		35,362	13,752
Non-controlling interests		349	61
		35,711	**13,813**
Basic and diluted earnings per ordinary share for profit attributable to the owners of the Company (in RUB per share)	25	0.45	0.17

The accompanying notes on pages F-69 to F-110 are an integral part of these consolidated financial statements.

	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		48,774	15,651
Adjustments for:			
Depreciation of property, plant and equipment		8,985	9,905
Amortisation of other intangible assets and mineral rights		2,664	2,614
Loss on disposal of property, plant and equipment	22	213	260
Gain on extinguishment of financial liability	31	—	(12,765)
(Release of)/ provision for impairment of receivables and prepayments	21	(82)	589
Inventories write-down/(reversal of inventories write-down)	10	342	(159)
Finance cost (net)		13,887	12,265
Foreign exchange gains		(33)	(269)
Net gain on available-for-sale financial assets	22	—	(985)
Employee benefits	26	1,807	1,016
Share of net loss of associates	9	221	158
Release of provision for uncertain tax positions	22	—	(169)
Loss on disposal of assets held for sale	22,27	101	—
Other		10	(108)
Operating cash flow before changes in working capital		**76,889**	**28,003**
Inventories		(5,333)	835
Trade and other receivables		(5,394)	3,198
Trade and other payables		3,986	87
Assets held for sale		(523)	771
Employee benefit obligations		(468)	(337)
Cash generated from operations		**69,157**	**32,557**
Interest paid		(12,051)	(13,054)
Income tax paid		(9,094)	(1,311)
Income tax refund		—	2,143
Waiver fees and other charges		(381)	(946)
Net cash from operating activities		**47,631**	**19,389**
Cash flows from investing activities:			
Purchases of property, plant and equipment; intangible assets and exploration and evaluation expenditure		(12,405)	(9,748)
Proceeds from the sale of property, plant and equipment and intangible assets		110	93
Payment for Udokan copper field licence		—	(10,540)
Cash outflow from disposal of OOO KB Ferrobank	27	(1,803)	—
Acquisition of commercial papers		—	(392)
Proceeds from disposal of commercial papers		—	14,533
Proceeds from disposal of available-for-sale financial assets		—	1,499
Change in restricted cash balances		176	311
Loans advanced		(1,068)	—
Repayment of loans advanced		4,803	10,696
Interest income received		334	998
Net cash (used in)/from investing activities		**(9,853)**	**7,450**

	Note	2010	2009
Cash flows from financing activities:			
Repayment of borrowings		(119,779)	(97,932)
Proceeds from borrowings		79,626	80,919
Payment of finance lease liability		—	(44)
Payments of financial liability		(1,160)	(1,614)
Dividends paid to owners of the Company	24	(6,510)	—
Net cash used in financing activities		**(47,823)**	**(18,671)**
Effect of exchange rate changes on cash and cash equivalents		40	119
Net (decrease)/increase in cash and cash equivalents		**(10,005)**	**8,287**
Cash and cash equivalents at the beginning of the year, net of restricted cash		**14,638**	**6,351**
Cash and cash equivalents at the end of the year, net of restricted cash		**4,633**	**14,638**
Included in cash and cash equivalents per the statement of financial position	13	4,633	12,327
Included in the assets of the disposal group		—	2,311

The following non-cash transactions were excluded from investing and financing activities:

	Note	2010	2009
Non-cash investing activities			
Settlement of loans advanced to related party, including interest income, with promissory notes	28	—	13,977
Total non-cash investing activities			**13,977**

The accompanying notes on pages F-69 to F-110 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company					
	Share capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2009	**5,527**	**(4,528)**	**30,997**	**31,996**	**1,461**	**33,457**
Profit for the period	—	—	13,855	13,855	61	**13,916**
Other comprehensive income						
Currency translation differences	—	(661)	—	(661)	—	**(661)**
Fair value gain on available-for-sale assets	—	1,263	—	1,263	—	**1,263**
Actuarial gain on employee benefit obligations	—	—	305	305	—	**305**
Gain on available-for-sale financial assets transferred to the statement of comprehensive income	—	(1,010)	—	(1,010)	—	**(1,010)**
Total comprehensive income for the year ended 31 December 2009	**—**	**(408)**	**14,160**	**13,752**	**61**	**13,813**
Disposal of interest in subsidiaries	—	—	(98)	(98)	832	**734**
Balance at 31 December 2009	**5,527**	**(4,936)**	**45,059**	**45,650**	**2,354**	**48,004**
Profit for the period	—	—	36,085	36,085	349	**36,434**
Other comprehensive income						
Currency translation differences	—	(202)	—	(202)	—	**(202)**
Actuarial loss on employee benefit obligations	—	—	(521)	(521)	—	**(521)**
Total comprehensive income for the year ended 31 December 2010	**—**	**(202)**	**35,564**	**35,362**	**349**	**35,711**
Dividends declared by the Company	—	—	(6,510)	(6,510)	—	**(6,510)**
Balance at 31 December 2010	**5,527**	**(5,138)**	**74,113**	**74,502**	**2,703**	**77,205**

The accompanying notes on pages F-69 to F-110 are an integral part of these consolidated financial statements.

1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for OAO Holding Company METALLOINVEST (the "Company") and its subsidiaries (the "Group"). The Group's principal business activity is the production and sale of iron ore products and ferrous metals. These products are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is Lesnaya str., 3, Moscow, Russia. The Group's manufacturing facilities are primarily based in the Kursk, Belgorod and Orenburg regions.

At 31 December 2010 and 2009, Gallagher Holdings Limited (Cyprus) owned a 50% stake in the Company, Seropaem Holdings Limited (Cyprus) owned a 30% stake and Coalco Metals Limited (Cyprus) owned a 20% stake.

The following table sets out the principal subsidiary undertakings of the Group:

		Nominal ownership, %	
Entity	**Activity**	**31 December 2010**	**31 December 2009**
OAO Holding Company METALLOINVEST	Holding company	Holding company	
OOO Management Company METALLOINVEST	Management company	100%	100%
OAO Lebedinskiy Mining and Processing Works ("LGOK")	Production and sale of iron ore products	100%	100%
OAO Oskol Electrometallurgical Combine ("OEMK")	Production and sale of ferrous metal products	100%	100%
OAO Mikhailovsky Mining and Processing Works ("MGOK")	Production and sale of iron ore products	97.7%	97.7%
OAO Ural Steel ("Ural Steel")	Production and sale of ferrous metal products	100%	100%
OOO Metalloinvesttrans	Transportation services	100%	100%
Metalloinvest Holding Limited (Cyprus)	Holding of investments	100%	100%
OOO Ural Scrap Company	Collection and processing of metal scrap	80%	80%
Ferrous Metal Company Limited (Gibraltar)	Iron ore and steel products trading	100%	100%
Metalloinvest Trading AG (Switzerland)	Iron ore and steel products trading	100%	100%

2 Basis of preparation and summary of significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Consolidated financial statements. Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Transactions with non-controlling interests. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded from equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the period, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss in the financial period in which they are incurred.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount,

which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	7 to 50
Plant and equipment	3 to 25
Transport	5 to 20
Other	2 to 10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets. The Group's intangible assets other than goodwill have finite useful lives and primarily include customer relationships acquired in business combinations, acquired computer software licences and licensed technology. Intangible assets are amortised using the straight-line method over their estimated useful lives of three to five years and assessed for impairment whenever there is an indication than the intangible assets may be impaired. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Exploration and evaluation expenditures. Exploration and evaluation expenditures include licenses and other expenditures incurred by the Group in connection with the exploration and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The costs associated with acquisition of licenses are recognised as exploration and evaluation assets. The Group does not recognise borrowing costs as exploration and evaluation assets. The Group classifies exploration and evaluation assets as tangible or intangible according to the nature of the assets. Exploration and evaluation assets are measured at cost and are not depreciated or amortised. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. In 2009 and 2010 the exploration and evaluation expenditures included primarily costs associated with acquisition of licenses.

Development expenditure. Development expenditure includes costs directly attributable to the construction of production facilities and related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalised and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

Mineral rights. In accordance with provisions of IFRS 3, Business Combinations, mineral rights acquired in business combinations are recorded at their fair values at the date of acquisition, based on their appraised fair value. Other mineral rights and licences are recorded at cost.

Mineral rights stated at 31 December 2010 and 2009 represent mineral rights recognised as a result of acquisition of MGOK in December 2006 which grant access to reserves that will be extracted over periods in excess of 100 years. The appraised value of these rights reflects expected cash flows over thirty years from the date of acquisition, since the impact of cash flows beyond this period is not material. The Group's production plans for these reserves are such that there is no material difference between amortisation calculated using the units of production and using the straight-line method. These rights are therefore amortised on a straight line basis over thirty years.

Financial assets. The Group classifies its financial assets in the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

(a) *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'loans advanced' and 'cash and cash equivalents' in the statement of financial position.

(b) *Available-for-sale* financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

(c) *Held-to-maturity* assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each end of the reporting period.

(d) *Financial assets at fair value through profit or loss* are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets that require delivery within a time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the

Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus transaction costs directly attributable to the acquisition or issue of the financial assets, except for financial assets at fair value through profit or loss which are initially recognised at fair value and respective transaction costs are expensed in the period when incurred. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss as 'other income/(expenses)—net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss for the period as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are reclassified from other comprehensive income to 'gains and losses from investment securities' in profit or loss for the period. Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired, such as significant financial difficulty of the issuer or debtor; a default or delinquency in interest or principal payments; a significant or prolonged decline in the fair value of an equity security below its cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events that occurred after the initial recognition of a financial asset.

For "loans and receivables" the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through allowance account and the amount of the impairment loss is recognised in profit or loss within "general and administrative expenses". If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is reversed through current period's profit or loss.

For equity investments classified as available for sale, the cumulative impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss. The impairment loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets. Bank overdrafts are shown within borrowings in current liabilities.

Advances issued. Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Financial liabilities. The Group classifies its financial liabilities in the following categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Derivative instruments are measured at fair value with the fair value gains and losses recognised in profit or loss. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in the variables relative to their terms. They are classified into the trading category and presented as current or non-current, depending on their maturity dates. Other financial liabilities include trade and other payables and borrowings. Other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Income taxes. The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income, primarily the Russian Federation. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except to the extent that it relates to transactions that are recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences arising on initial recognition of goodwill or subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian roubles ("RUB").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("the Central Bank") at the respective end of the reporting period. Foreign exchange gains and losses resulting from settlement of transactions and from translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2010 the principal exchange rates used for translating foreign currency balances were USD 1 = RUB 30.4769 (2009: USD 1 = RUB 30.2442), EUR 1 = RUB 40.3331 (2009: EUR 1 = RUB 43.3883).

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each type of the Group's revenue as described below.

Sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Short-term employee benefits. Wages, salaries, contributions to the Russian Federation state pension, medical and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group and are included within labour costs in operating expenses. The Group recognised contributions of RUB 2,930 million as part of labour costs in 2010 (2009: RUB 2,421 million).

Pension and other post-employment benefits. Group companies operate both funded and unfunded post-employment benefits plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period date less the fair value of any plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have maturities approximating those of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income as they arise.

Past-service costs are recognised immediately in profit or loss, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Some group companies provide post-retirement healthcare and other benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income as they arise. These obligations are valued annually by independent qualified actuaries.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together in a single transaction, and the liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated. Reclassified non-current financial instruments and deferred taxes are not subject to write-down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

3 Critical accounting estimates and judgments

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Remaining useful life of property, plant and equipment and mineral rights

The estimation of the useful lives of items of property, plant and equipment and mineral rights is a matter of judgement based on experience with similar assets. The future economic benefits embodied in assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in a reduction of the economic benefits embodied in the assets. Management assesses remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

The Group extracts iron ore from land owned by government authorities. The Group obtains licences and pays exploration and production taxes to explore and produce iron ore from fields covered by the licences. The licences expire in 2016, but they may be extended at the Group's initiative provided the Group is in compliance with licence terms. The estimated remaining useful life of some property, plant and equipment and mineral rights is beyond the expiration dates of the related licences. Management believes that the Group is currently in compliance with licence terms and will be able to extend the licences. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

(b) Obligations related to the retirement of long-lived assets

Based on the current requirements under Russian law and various contractual agreements associated with the licences and the expected life of the reserves, the Group has estimated its discounted obligations related to the retirement of its long-lived assets as immaterial.

(c) Related party transactions

In the normal course of business the Group enters into transactions with its related parties (Note 28). IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in

determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

(d) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

(e) Provision for employee benefit obligations

The Group's estimates for employee benefit obligations provisions are based on currently available information. Actual results may differ from the estimates, and the Group's estimates may be revised in the future, either negatively or positively. Provisions for employee benefit obligations are periodically adjusted based on updated actuarial assumptions. The principal assumptions used in valuation of employee benefit obligations are the discount rate and inflation rate (Note 26).

(f) Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8.

(g) Impairment of long-lived assets

At each end of the reporting period management assesses whether there is any indication of impairment of long-lived assets, including property, plant and equipment, mineral rights, intangible assets and exploration and evaluation assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Since April 2009 steel and iron ore market significantly improved including increased demand and prices and this trend continued in 2010. The Group met its internal forecasts for 2010 and concluded that there were no indicators of impairment of long-lived assets at 31 December 2010.

(h) Going concern

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 30).

4 Adoption of new or revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in these financial statements.

IAS 27 (revised) has had no other impact on the current period, as none of the non-controlling interests have a deficit balance and there have been no transactions with non-controlling interests.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements.

Group Cash-settled Share-based Payment Transactions—Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on these financial statements.

Additional Exemptions for First-time Adopters—Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses

through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Classification of Rights Issues—Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendment to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement—Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral

by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters—Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendment to have any effect on its financial statements.

Disclosures—Transfers of Financial Assets—Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Recovery of Underlying Assets—Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes—Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters—Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any effect on its financial statements.

The new standards and interpretations are not expected to significantly affect the Group's financial statements.

6 Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The functions of the CODM are performed by the Board of Directors of the Group. Management has determined the operating segments based on the reports reviewed by the Board of Directors of the Group.

The Group is organised on the basis of the following reportable operating segments:

- Mining—production and sale of iron ore products (includes LGOK and MGOK);
- Steel—production and sale of ferrous metal products (includes OEMK, Ural Steel and Ural Scrap Company);
- Trading—overseas trading of the Group's products (includes Ferrous Metal Company Limited and Metalloinvest Trading AG);
- Transportation—transportation and logistics services rendered by Metalloinvesttrans.

Other activities have been included in the "All other segments" column. These activities include central management, certain services and investment activities, construction of Hamriyah steel plant and the Group's activities in exploration and evaluation of oil and gas and copper deposits.

In 2010 the Group's CODM changed the approach to identifying operating segments.

Starting 2010, leasing segment is not separately reviewed by the Board of Directors to make operating and strategic decisions and not assessed as a separate reportable segment. Operating results and performance measures of the leasing segment are assessed as a part of the respective segments to which the leasing services are provided.

Starting 2010, scrap processing activity is assessed as a part of the Steel segment operations and is included in the Steel segment.

Prior period disclosures have been prepared to conform to the current year presentation.

The CODM reviews management accounting information which is based on the financial information prepared in accordance with Russian accounting standards (RAS) or IFRS and adjusted to meet internal reporting requirements. Such financial information differs in certain aspects from the information presented in accordance with International Financial Reporting Standards.

Sales between segments are carried out at arm's length. Revenue from external parties reported to the Board of Directors of the Group is measured in a manner consistent with that in profit or loss.

The CODM evaluates the performance of each segment based on management accounting EBITDA, which is determined as operating profit before tax adjusted for depreciation and amortisation, foreign exchange gain or loss, interest income and expense and certain other non-cash and extraordinary items. Since EBITDA is not a standard IFRS measure, the Group's definition may differ from that of other companies.

Segment financial information reviewed by the CODM includes working capital as a measure of reportable segments' assets. Working capital consists of inventories and certain receivables and payables. Since working capital is not a standard IFRS measure, the Group's definition may differ from that of other companies.

Segment information for the year ended 31 December 2010 is as follows:

	Mining	Steel	Trading	Transportation	All other segments	Eliminations	Total
2010							
External revenue	42,460	65,125	109,318	2,432	333	—	219,668
Inter-segment revenue	63,083	46,441	4,423	17,404	73	(131,424)	—
Total revenue	**105,543**	**111,566**	**113,741**	**19,836**	**406**	**(131,424)**	**219,668**
EBITDA	**60,382**	**14,205**	**2,037**	**3,731**	**(1,760)**	**—**	**78,595**
Depreciation and amortisation	3,095	3,632	1	1,069	126	—	7,923
Interest income	171	102	11	1	587	—	872
Inter-segment interest income	1,912	3,428	—	170	96	(5,606)	—
Interest expense	4,859	4,617	286	491	586	—	10,839
Inter-segment interest expense	2,270	140	—	—	3,196	(5,606)	—
Income tax expense	7,534	2,704	170	416	(378)	—	10,446
Total reportable segment assets	**12,476**	**14,305**	**1,248**	**2,591**	**(202)**	**—**	**30,418**
Capital expenditure	**4,360**	**3,732**	**3**	**268**	**2,055**	**—**	**10,418**

Segment information for the year ended 31 December 2009 is as follows:

	Mining	Steel	Trading	Transportation	All other segments	Eliminations	Total
2009							
External revenue	20,105	38,679	89,730	1,591	267	—	150,372
Inter-segment revenue	30,936	42,102	60	11,399	75	(84,572)	—
Total revenue	**51,041**	**80,781**	**89,790**	**12,990**	**342**	**(84,572)**	**150,372**
EBITDA	**15,272**	**7,708**	**2,151**	**2,980**	**(1,499)**	**—**	**26,612**
Depreciation and amortization	3,450	2,862	24	1,045	131	—	7,512
Interest income	764	89	24	3	1,474	—	2,354
Inter-segment interest income	2,254	3,284	13	13	366	(5,930)	—
Interest expense	5,159	4,328	307	415	1,749	—	11,958
Inter-segment interest expense	2,501	70	—	—	3,359	(5,930)	—
Income tax expense	1,392	795	34	285	(504)	—	2,002
Total reportable segment assets	**2,502**	**16,305**	**606**	**2,609**	**(119)**	**—**	**21,903**
Capital expenditure	**1,495**	**4,374**	**3**	**126**	**14,029**	**—**	**20,027**

A reconciliation of EBITDA to profit before tax is provided as follows:

	2010	2009
EBITDA for reportable segments	**80,355**	**28,111**
Other segments EBITDA	**(1,760)**	**(1,499)**
Adjustments to EBITDA arising from differences in management accounting and IFRS:		
Capitalisation of elements of cost of non-current assets recognized as expenses in profit or loss in accordance with RAS	1,449	513
Additional loss on disposal of property, plant and equipment	(275)	(488)
Unrealised profits adjustment	(2,928)	633
Additional reverse of provision for impairment of receivables/(additional provision for impairment of receivables)	126	(576)
Employee benefit obligations adjustment	(1,339)	(679)
Reclassification of waiver fees and other charges from operating expenses to finance costs	240	325
Annual bonus accrual	(1,082)	—
Other adjustments	(288)	235
	74,498	**26,575**
Other reconciling items:		
Depreciation and amortisation	(11,649)	(12,519)
Finance income	880	2,366
Finance costs	(14,767)	(14,632)
Foreign exchange gains	33	269
Gain on extinguishment of financial liability	—	12,765
Net gain on available-for-sale financial assets	—	985
Share of net loss of associates	(221)	(158)
Profit before tax	**48,774**	**15,651**

Reportable segments' assets are reconciled to total assets as follows:

	2010	2009
Segment assets for reportable segments	**30,620**	**22,022**
Other segments assets	**(202)**	**(119)**
Segment liabilities for reportable segments and other segments liabilities	21,734	17,805
Unrealised profits adjustment	(3,234)	(790)
Additional provision for impairment of receivables	(589)	(355)
Recognition of prepaid expenses in profit or loss for the year	(423)	(435)
Other	334	138
Unallocated:		
Non-current assets	190,741	198,809
Cash	4,633	12,503
Interest receivable	2,091	202
Current loans advanced	2,746	678
Financial receivables	1,133	1,133
Assets held for sale	—	5,651
Other	299	319
Total consolidated assets	**249,883**	**257,561**

Substantially all of the Group's non-current non-financial assets are located in the Russian Federation. Non-current non-financial assets located in foreign countries are mainly represented by assets Hamriyah Steel FZC (UAE) of RUB 4,751 million (2009: RUB 4,660 million.).

The Group's revenues are analysed by products and services in Note 18.

An analysis of the Group's revenues from external customers by their geographical location presented as follows:

	2010	2009
Russia	88,411	50,860
CIS	19,902	9,206
China	18,061	20,496
Slovakia	10,895	5,333
Turkey	10,811	11,906
Iran	10,079	11,139
Italy	5,439	4,257
Korea	5,295	2,709
The Netherlands	5,255	2,371
Germany	4,526	666
UK	4,380	425
Czech Republic	3,699	1,094
Hungary	3,181	796
Vietnam	3,071	3,967
Poland	2,864	1,271
Spain	2,472	1,340
France	2,153	540
Other countries	19,174	21,996
Total consolidated revenues	**219,668**	**150,372**

7 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land	Buildings	Plant and equipment	Transport	Other	Exploration and evaluation expenditure	Construction in progress	Total
Cost at 1 January 2009	621	40,597	54,158	17,454	1,572	16	21,002	135,420
Accumulated depreciation	—	(11,311)	(21,221)	(4,634)	(714)	—	—	(37,880)
Carrying amount at 1 January 2009	**621**	**29,286**	**32,937**	**12,820**	**858**	**16**	**21,002**	**97,540**
Additions	2	92	1,122	286	7	156	6,166	7,831
Transfers	—	2,902	9,855	62	31	—	(12,850)	—
Disposals	—	(84)	(228)	(109)	(219)	—	(41)	(681)
Depreciation charge	—	(2,467)	(6,130)	(1,162)	(181)	—	—	(9,940)
Translation to presentation currency	—	—	(2)	—	1	—	(2)	(3)
Carrying amount at 31 December 2009	**623**	**29,729**	**37,554**	**11,897**	**497**	**172**	**14,275**	**94,747**
Cost at 31 December 2009	623	43,464	64,602	17,536	1,379	172	14,275	142,051
Accumulated depreciation	—	(13,735)	(27,048)	(5,639)	(882)	—	—	(47,304)

	Land	Buildings	Plant and equipment	Transport	Other	Exploration and evaluation expenditure	Construction in progress	Total
Carrying amount at 1 January 2010	**623**	**29,729**	**37,554**	**11,897**	**497**	**172**	**14,275**	**94,747**
Additions	17	317	1,997	870	81	391	11,324	14,997
Transfers	1	5,447	10,382	113	32	—	(15,975)	—
Disposals	(7)	(83)	(228)	(72)	(10)	—	(413)	(813)
Depreciation charge	—	(2,252)	(6,047)	(1,155)	(188)	—	—	(9,642)
Translation to presentation currency	—	—	(10)	—	—	—	(14)	(24)
Carrying amount at 31 December 2010	**634**	**33,158**	**43,648**	**11,653**	**412**	**563**	**9,197**	**99,265**
Cost at 31 December 2010	634	49,067	76,062	18,287	1,465	563	9,197	155,275
Accumulated depreciation	—	(15,909)	(32,414)	(6,634)	(1,053)	—	—	(56,010)
Carrying amount at 31 December 2010	**634**	**33,158**	**43,648**	**11,653**	**412**	**563**	**9,197**	**99,265**

The carrying amount of property, plant and equipment pledged as collateral was as follows:

	31 December 2010	31 December 2009
Bank borrowings (Note 15)	14,176	12,035
Guarantees issued in favour of third parties	—	45
Total carrying amount of pledged property, plant and equipment	**14,176**	**12,080**

8 Intangible assets

	Goodwill	Customer relationships	Acquired software licences	Licensed technology	Exploration and evaluation expenditure	Total
Carrying amount at 1 January 2009	**11,714**	**1,432**	**306**	**137**	**2,380**	**15,969**
Cost at 1 January 2009	31,836	2,386	400	169	2,380	**37,171**
Accumulated amortisation and impairment	(20,122)	(954)	(94)	(32)	—	**(21,202)**
Additions	—	—	86	—	15,040	**15,126**
Amortisation charge	—	(477)	(72)	(17)	—	**(566)**
Carrying amount at 31 December 2009	**11,714**	**955**	**320**	**120**	**17,420**	**30,529**
Cost at 31 December 2009	31,836	2,386	486	169	17,420	52,297
Accumulated amortisation and impairment	(20,122)	(1,431)	(166)	(49)	—	(21,768)
Additions	—	—	51	—	522	**573**
Amortisation charge	—	(478)	(121)	(17)	—	**(616)**
Carrying amount at 31 December 2010	**11,714**	**477**	**250**	**103**	**17,942**	**30,486**
Cost at 31 December 2010	31,836	2,386	537	169	17,942	52,870
Accumulated amortisation and impairment	(20,122)	(1,909)	(287)	(66)	—	(22,384)

Exploration and evaluation expenditure

In 2008 the Group acquired a licence for the *Sladkovsko-Zarechnoe oil and gas deposit* for a consideration of RUB 2,380 million.

In 2009 the Group obtained a licence for the *Udokan copper deposit* for a consideration of RUB 15,000 million. In accordance with the terms of the licence, the Group has to comply with the following commitments:

- agree upon a technical project for the copper deposit development with the state authorities within 30 months of June 2009;
- start the construction of production facilities within 42 months of June 2009;
- start the extraction of copper ore within 60 months of June 2009;
- complete the construction of mining and processing facilities and attain the estimated production capacity within 84 months of June 2009.

In 2010 capitalised exploration and evaluation expenditures classified as intangible assets (geological studies, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) for the Sladkovsko-Zarechnoe and the Udokan deposits amounted to RUB 522 million (2009: RUB 40 million).

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. At 31 December 2010 and 2009, goodwill of RUB 11,714 million related to CGU MGOK, which is included in the Group's mining segment.

Goodwill was tested for impairment as at 31 December 2010. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash-flow projections based on financial budgets approved by management for a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates.

The key assumptions used for value-in-use calculations at 31 December 2010 and 31 December 2009 are as follows:

	2010	2009
Growth rate	2.4%	3.0%
Pre-tax discount rate	12.6%	16.2%

The estimated growth rates used are consistent with forecasts in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU. Based on the results of these calculations the Group concluded that at 31 December 2010 no impairment charge was required. If the estimated growth rate and pre-tax discount rate applied to the discounted cash flows of MGOK had been 1% lower and 1% higher, respectively, than management's estimates, goodwill would still have not been impaired.

9 Investments in associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

	2010	2009
Carrying amount at 1 January	**2,256**	**2,356**
Share of net loss of associates	(221)	(158)
Reclassification due to disposal of controlling interest (Note 27)	227	—
Exchange differences	11	58
Carrying amount at 31 December	**2,273**	**2,256**

The Group's interests in its principal associates and their summarised financial information as at 31 December 2010, including total assets and liabilities, were as follows:

Name of associate	Country of incorporation	Assets	Liabilities	Revenue	Profit (loss)	% of interest held
OSMiBT	Russian Federation	2,076	(334)	2,745	41	40%
Nautilus Minerals Inc	Canada	6,311	(446)	—	(1,245)	21%
KB Ferrobank	Russian Federation	6,234	(5,400)	423	78	30%

The Group's interests in its principal associates and their summarised financial information as at 31 December 2009, including total assets and liabilities, were as follows:

Name of associate	Country of incorporation	Assets	Liabilities	Revenue	Profit (loss)	% of interest held
OSMiBT	Russian Federation	2,776	(1,070)	2,702	57	40%
Nautilus Minerals Inc	Canada	7,315	(258)	—	(861)	21%

The market value of the Group's interest in Nautilus Minerals Inc based on Toronto Stock Exchange quotation as at 31 December 2010 was RUB 2,294 million (2009: RUB 1,652 million).

10 Inventories

	31 December 2010	31 December 2009
Raw materials	13,888	10,857
Work in progress	2,187	1,656
Finished products	7,010	4,564
Total	**23,085**	**17,077**

At 31 December 2010, inventories of RUB 5,395 million (2009: RUB 2,716 million) were pledged as security for borrowings.

During 2010 the Group recognised inventory write-down to net realisable value of RUB 342 million (2009: reversal of RUB 159 million of a previous inventory write-down) in cost of sales in the statement of comprehensive income.

11 Loans advanced

	Currency	Interest rate	31 December 2010	Interest rate	31 December 2009
Short-term					
Loans advanced to related parties (Note 28)	RUB	8.0%-12.0%	2,634	6.0%-12.0%	529
Loans advanced to third parties	RUB	6.0%-9.0%	112	8.0%	149
			2,746		**678**
Long-term					
Loans advanced to related parties with maturity in November 2013 (Note 28)	USD	7.0%	601	—	—
Loans advanced to related parties with maturity in December 2013 (Note 28)	RUB	8.0%	457	—	—
Loans advanced to related parties with maturity in November 2013 (Note 28 (ii))	RUB	8.5%	130	—	—
Loans advanced to related parties with maturity in December 2011 (Note 28)	RUB	—	—	17.8%	6,907
Loans advanced to third parties	RUB	7.8%	62	8.8%	27
			1,250		**6,934**
			3,996		**7,612**

Interest accrued on long-term loans advanced of RUB 15 million (2009: RUB 1,365 million) are included in long-term receivables (Note 14). Interest accrued on short-term loans advanced of RUB 2,091 million (2009: RUB 202 million) are included in other financial receivables (Note 12).

The fair values of loans advanced approximate their carrying amounts.

12 Trade and other receivables

	31 December 2010	31 December 2009
Trade receivables	17,392	13,212
Less: provision for impairment of trade receivables	(234)	(226)
Trade receivables—net	17,158	12,986
Other financial receivables	3,685	2,003
Less: provision for impairment of other receivables	(144)	(227)
Other receivables—net	3,541	1,776
Total financial assets within trade and other receivables	**20,699**	**14,762**
Advances to suppliers	1,278	1,325
VAT recoverable	3,445	2,299
VAT receivable	2,527	2,715
Other taxes receivable	59	38
Other receivables	404	427
Total trade and other receivables	**28,412**	**21,566**

The carrying amounts of trade and other receivables approximate their fair values.

At 31 December 2010, trade receivables arising from export contracts of RUB 2,554 million (2009: RUB 2,774 million) were pledged as security for borrowings.

At 31 December 2010, trade and other receivables of RUB 469 million (2009: RUB 2,840 million) were past due but not impaired. These receivables relate to a number of independent customers and other debtors for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	31 December 2010	31 December 2009
Up to 3 months	316	1,306
3 to 12 months	153	1,534
Total	**469**	**2,840**

At 31 December 2010, trade receivables of RUB 234 million (2009: RUB 226 million) and other financial receivables of RUB 144 million (2009: RUB 227 million) were individually impaired and fully provided for. The individually impaired receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

Movements in the Group's provision for impairment of trade and other financial receivables are as follows:

	2010		2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
At 1 January	**226**	**227**	**70**	**97**
Provision for impairment during the year	68	34	213	130
Receivables written off during the year as uncollectible	(8)	(106)	(22)	—
Unused amounts reversed	(52)	(11)	(35)	—
At 31 December	**234**	**144**	**226**	**227**

The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. Receivables that are neither past due nor impaired are considered to be of high credit quality. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2010	31 December 2009
RUB	20,261	16,783
USD	6,222	4,170
EUR	1,872	595
Other currencies	57	18
Total	**28,412**	**21,566**

13 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2010	31 December 2009
Cash on hand	6	9
RUB-denominated balances with banks	2,114	6,439
Foreign currency denominated balances with banks	2,346	2,857
Foreign currency denominated bank deposits	166	566
RUB-denominated bank deposits	1	2,456
Total	**4,633**	**12,327**

RUB-denominated bank deposits bear an annual interest rate of 1.4%-3.7% (2009: 4.0%-4.9%). Bank deposits denominated in a foreign currency bear an annual interest rate of 0.1%-0.4% (2009: 0.2%-0.8%).

Restricted cash

At 31 December 2010 no cash was restricted. At 31 December 2009 restricted cash of RUB 176 million represents cash which is restricted under the terms of certain borrowings.

14 Other non-current assets

	31 December 2010	31 December 2009
Long-term receivables	122	1,597
Total financial assets within other non-current assets	**122**	**1,597**
Advances to suppliers of property, plant and equipment	4,442	8,012
Less: provision for impairment of advances to suppliers	(702)	(830)
Advances to suppliers of property, plant and equipment, net	3,740	7,182
Other	354	265
Total other non-current assets	**4,216**	**9,044**

15 Short-term and long-term borrowings

	31 December 2010	31 December 2009
Long-term borrowings	85,726	101,243
Short-term borrowings, including current portion of long-term borrowings of RUB 25,168 million (31 December 2009: RUB 48,092 million)	32,066	57,144
Bank overdraft	8,585	6,104
Total	**126,377**	**164,491**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31 December 2010	31 December 2009
RUB	57,960	61,189
USD	56,392	90,599
EUR	12,025	12,703
Total	**126,377**	**164,491**

Bank borrowings bear floating interest rates ranging as follows:

Currency	Interest rate	31 December 2010	Interest rate	31 December 2009
USD	1.1%-6.0%	20,426	1.1%-6.7%	30,086
EUR	1.6%-4.5%	11,728	1.3%-4.3%	11,881
RUB	11.8%	1,310	14.0%	20,917
		33,464		**62,884**

Bank borrowings bear fixed interest rates ranging as follows:

Currency	Interest rate	31 December 2010	Interest rate	31 December 2009
USD	7.4%	35,966	5.7%-7.5%	60,513
EUR	3.0%	297	3.0%-8.6%	822
RUB	7.5%-8.3%	56,650	7.5%-16.3%	40,272
		92,913		**101,607**
Total		**126,377**		**164,491**

At 31 December 2010 long-term borrowings of RUB 56,503 million (2009: RUB 64,493 million) and short-term borrowings of RUB 19,086 million (2009: RUB 25,078 million) were secured by property, plant and equipment (Note 7), proceeds from revenue contracts (Note 12), certain turnovers within the Group's entities and shares of the Group's subsidiary Hamriyah Steel FZC.

At 31 December 2010 short-term borrowings of RUB 287 million were secured by a Belgorod region administration guarantee (2009: long-term borrowings of RUB 309 million and short-term borrowings of RUB 255 million).

At 31 December 2009 related parties of the Group guaranteed the Group's long-term borrowings of RUB 9,073 million. By 31 December 2010 the borrowings were settled ahead of schedule and the guarantee ceased.

At 31 December 2009 12.5% of the Company's shares were pledged by the Company's owners as collateral for a long-term loan of the Group of RUB 21,422 million. By 31 December 2010 the loan was repaid according to schedule.

At 31 December 2009 50% of long-term borrowings of RUB 20,916 million were secured by State guarantees.
At 31 December 2010 the borrowings were repaid ahead of schedule.

At 31 December 2010 bank overdrafts of RUB 7,140 million (2009: RUB 5,401 million) were secured by inventories and revenue contracts (Notes 10, 12).

Interest accrued on borrowings with maturities more than twelve months after the end of the reporting period of RUB nil million (2009: RUB 339 million) and less than twelve months after the end of the reporting period of RUB 115 million (2009: RUB 108 million) are presented in non-current accounts payable and current accounts payable, respectively.

At 31 December 2010 the fair value of borrowings approximates their carrying amounts. At 31 December 2009 the carrying amounts of borrowings exceeded their fair values by RUB 3,228 million.

Long-term debts are repayable as follows:

	31 December 2010	31 December 2009
1 to 2 years	51,711	41,670
2 to 3 years	29,955	32,386
3 to 4 years	1,411	24,806
4 to 5 years	984	987
Over 5 years	1,665	1,394
Total	**85,726**	**101,243**

16 Income taxes

Income tax charge comprises the following:

	2010	2009
Current income tax charge	10,674	2,788
Deferred tax expense/(credit)	1,666	(1,053)
Income tax charge	**12,340**	**1,735**

The income tax rate applicable to the majority of the Group's 2010 and 2009 income is 20%.

A reconciliation between the expected and the actual taxation charge is provided below.

	2010	2009
Profit before income tax	**48,774**	**15,651**
Theoretical tax charge at statutory rate of 20%	9,755	3,130
Tax effect of items which are not deductible or assessable for taxation purposes:		
Withholding tax on dividends paid	19	38
Unrecognised deferred tax asset	494	430
Tax effect of utilisation of previously unrecognised tax losses	—	(359)
Gain on extinguishment of financial liability	—	(2,553)
Non deductible social costs	262	158
Non deductible remuneration for employees	421	252
Non deductible charitable donations	160	93
Non deductible other expenses	913	233
Effect of different tax rates in countries in which the Group operates	219	(122)
Adjustment in respect of prior years	97	435
Income tax charge	**12,340**	**1,735**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of movements in these temporary differences is detailed below and is recorded at the rate of 20%.

	1 January 2010	Credited/(charged) to profit or loss	31 December 2010
Tax effect of deductible temporary differences:			
Receivables	181	(101)	80
Accounts payable and other liabilities	95	231	326
Inventories	—	151	151
Borrowings	—	171	171
Tax loss carry forwards	—	1,074	1,074
Other	428	(340)	88
Tax effect of taxable temporary differences:			
Property, plant and equipment	(6,650)	(494)	(7,144)
Intangible assets and mineral rights	(11,275)	(2,518)	(13,793)
Inventories	(79)	79	—
Borrowings	(81)	81	—
Total net deferred tax liability	**(17,381)**	**(1,666)**	**(19,047)**

	1 January 2009	Credited/(charged) to profit or loss	31 December 2009
Tax effect of deductible temporary differences:			
Receivables	32	149	181
Accounts payable and other liabilities	53	42	95
Other	174	254	428
Tax effect of taxable temporary differences:			
Property, plant and equipment	(6,452)	(198)	(6,650)
Intangible assets and mineral rights	(11,759)	484	(11,275)
Inventories	(30)	(49)	(79)
Borrowings	(452)	371	(81)
Total net deferred tax liability	**(18,434)**	**1,053**	**(17,381)**

At 31 December 2010, the current portion of the deferred tax liability amounted to RUB 1,833 million (2009: RUB 1,734 million), the current portion of the deferred tax asset amounted to RUB 1,817 million (2009: RUB 430 million).

The Group has not recognised a deferred tax liability in respect of temporary differences associated with undistributed earnings of subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future. At 31 December 2010, undistributed earnings of subsidiaries totalled RUB 129,405 million including earnings of RUB 118,562 million which are subject to tax rate on intergroup dividends of 0% (2009: RUB 119,469 million and RUB 108,315 million, respectively).

17 Accounts payable

	31 December 2010	31 December 2009
Trade payables	7,459	7,787
Other financial payables	840	1,537
Total financial liabilities within trade and other payables	**8,299**	**9,324**
Advances from customers	1,992	600
Wages payable	2,717	1,352
Accrued liabilities and other payables	347	649
Total accounts payable	**13,355**	**11,925**

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	31 December 2010	31 December 2009
RUB	10,690	8,491
USD	1,785	2,374
EUR	632	1,034
Other currencies	248	26
Total	**13,355**	**11,925**

The carrying amounts of trade and other payables approximate their fair values.

18 Sales

	2010	2009
Steel and rolled products	98,583	82,425
Iron ore pellets	50,211	27,279
Iron ore	30,069	14,288
Hot briquetted iron	21,067	14,304
Pig iron	11,606	5,832
Transportation services	2,342	1,496
Scrap metal	355	255
Other revenue	5,435	4,493
Total	**219,668**	**150,372**

19 Cost of sales

	2010	2009
Materials and components	55,735	45,082
Energy costs	20,353	16,447
Labour costs	16,873	14,745
Depreciation and amortisation	9,079	10,027
Amortisation of mineral rights	2,048	2,048
Land, property and other taxes	2,322	2,213
Repairs and maintenance	740	600
Other	3,236	2,589
Total	**110,386**	**93,751**

20 Distribution expenses

	2010	2009
Transportation expenses	30,407	30,286
Labour costs	662	584
Packing materials	292	267
Custom duties	259	187
Depreciation	210	187
Other expenses	1,230	891
Total	**33,060**	**32,402**

21 General and administrative expenses

	2010	2009
Labour costs	6,160	4,000
Rent	1,507	1,359
(Release of)/provision for impairment of accounts receivable and prepayments	(82)	589
Legal and consultancy expenses	246	257
Bank charges	264	487
Repairs and maintenance	275	245
Depreciation	275	254
Security	505	209
Materials and fuel	139	124
Business trips	188	91
Other	1,369	1,114
Total	**10,846**	**8,729**

22 Other operating expenses/(income)—net

	2010	2009
Foreign exchange loss/(gain) on operating activities, net	183	(788)
Net gain on available-for-sale financial asset	—	(985)
Release of provision for uncertain tax positions	—	(169)
Income from banking activity	(19)	(90)
Loss on disposal of asset held for sale	101	—
Charity expenses	885	597
Social costs	467	501
Loss on disposal of property, plant and equipment	213	260
Penalties under sales contract	—	(482)
Other	880	817
Total	**2,710**	**(339)**

23 Finance costs

	2010	2009
Interest expense on borrowings	11,723	12,680
Loss from changes in estimate of cash flows arising from borrowings	599	—
Loss from extinguishment of debt	947	—
Waiver fees and other charges	381	964
Unwinding of discounting	197	188
Interest expense on defined benefits obligations	753	594
Other finance charges	167	206
Total	**14,767**	**14,632**

24 Share capital and other reserves

Share capital of the Company consists of one class of shares, ordinary shares, totalled 79,699 million shares with par value of RUB 0.05 per share. All issued ordinary shares are fully paid. Included in the share capital is an adjustment for the effect of hyperinflation of RUB 1,542 million.

	Par value, RUB	Number of outstanding shares, million	Ordinary shares, RUB million	Issued and fully paid share capital, RUB million
At 31 December 2010	0.05	79,699	5,527	5,527
At 31 December 2009	0.05	79,699	5,527	5,527

The total authorised number of ordinary shares is 159,398 million shares with a par value of RUB 0.05 per share (2009: RUB 0.05 per share).

All ordinary shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the Company's annual and general meetings.

Dividends declared and paid during the year were as follows:

	2010	2009
Dividends payable at 1 January	**—**	**—**
Dividends declared during the year	6,510	—
Dividends paid during the year	(6,510)	—
Dividends payable at 31 December	**—**	**—**
Dividends per share declared during the year in RUB	**0.08**	**—**

All dividends were declared and paid in Russian roubles.

In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2010, the Company's net statutory profit as reported in the published annual statutory reporting forms was RUB 21,237 million (2009: net statutory loss of RUB 1,198 million) and the closing balance of the accumulated profit, including the current year net statutory profit, totalled RUB 36,731 million (2009: RUB 22,004 million). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

Other reserves

	Available-for-sale financial assets	Currency translation differences	Total
Balance at 1 January 2009	**(253)**	**(4,275)**	**(4,528)**
Currency translation differences	—	(661)	**(661)**
Fair value gain on available-for-sale financial assets	1,263	—	**1,263**
Gain on available-for-sale financial assets transferred to the statement of comprehensive income	(1,010)	—	**(1,010)**
Balance at 31 December 2009	**—**	**(4,936)**	**(4,936)**
Currency translation differences	—	(202)	**(202)**
Balance at 31 December 2010	**—**	**(5,138)**	**(5,138)**

25 Earnings per share

The Company has no dilutive potential ordinary shares. Therefore, the diluted earnings per share equals the basic earnings per share. Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit for the year from operations attributable to ordinary shareholders	36,085	13,855
Weighted average number of ordinary shares in issue (million)	79,699	79,699
Basic and diluted earnings per ordinary share from operations (RUB per share)	**0.45**	**0.17**

26 Employee benefit obligations

The Group's companies operate both funded and unfunded post-employment benefits plans. The principal assumptions used for actuarial valuations were as follows:

	2010	2009
Discount rate	8.0%	9.0%
Expected rate of return on assets	10.0%	10.0%
Expected rate of salary increase	7.5%	8.0%
Inflation rate	6.0%	6.5%
Future pension increases	6.0%	6.5%

The amounts recognised in the statement of financial position were determined as follows:

	2010	2009
Present value of funded obligations	1,004	492
Fair value of plan assets	(82)	(80)
	922	412
	2010	**2009**
Present value of unfunded obligations	8,619	6,305
Unrecognised past service cost	(838)	(620)
Liability in the statement of financial position	**8,703**	**6,097**

The movement in the fair value of the plan asset over the year is as follows:

	2010	2009
Asset at beginning of the year	**80**	**128**
Contributions	112	70
Actuarial gain/(loss)	6	(29)
Expected return on plan assets	8	13
Payments	(124)	(102)
Asset at end of the year	**82**	**80**

The movement in defined benefit obligations over the year is as follows:

	2010	2009
Obligation at beginning of the year	**6,797**	**5,358**
Service cost	280	235
Interest cost	753	594
Actuarial loss/(gain)	527	(334)
Benefits paid	(479)	(368)
Past service cost	1,745	1,312
Obligation at end of the year	**9,623**	**6,797**

The amounts recognised in profit or loss are as follows:

	2010	2009
Service cost	280	235
Interest cost	753	594
Expected return on assets	(8)	(13)
Past service cost	1,527	781
Net periodic benefit cost	**2,552**	**1,597**

	2010	2009
Present value of defined benefit obligations	9,623	6,797
Fair value of plan assets	(82)	(80)
Deficit in plan	9,541	6,717
Experience adjustments on plan liabilities	71	(308)
Experience adjustments on plan assets	6	29

Of the total charge, RUB 1,476 million (2009: RUB 838 million), RUB 45 million (2009: RUB 19 million) and RUB 286 million (2009: RUB 159 million) were included in cost of sales, distribution expenses and general and administrative expenses, respectively; RUB 753 million (2009: RUB 594 million) and RUB 8 million (2009: RUB 13 million) were included in finance costs and finance income, respectively.

At 31 December, the cumulative amount of actuarial losses recognised in other comprehensive income was RUB 1,726 million (2009: RUB 1,205 million).

The principal assumptions used in valuation of employee benefit obligations are the discount rate and inflation rate. Were the discount rate used to differ by 0.75% from management's estimates, the carrying amount of employee benefit obligations would be an estimated RUB 776 million (2009: RUB 535 million) lower or RUB 901 million (2009: RUB 619 million) higher. Were the inflation rate used to differ by 0.75% from management's estimates, the carrying amount of employee benefit obligations would be an estimated RUB 723 million (2009: RUB 506 million) lower or RUB 883 million (2009: RUB 581 million) higher.

27 Assets held for sale

In May-June 2010, the Group disposed of 70% interest in its wholly owned subsidiary OOO KB Ferrobank to related parties for a total consideration of RUB 428 million. The Group recognised a loss on disposal of an asset held for sale of RUB 101 million in the statement of comprehensive income within "Other operating (expenses) / income—net".

Carrying amounts of assets and liabilities as at date of disposal:

	Carrying amount at the date of disposal
Cash and cash equivalents	1,803
Restricted cash	111
Loans advanced to customers	1,591
Less impairment for loans advanced	(202)
Trading securities	201
Financial assets held to maturity	609
Financial assets available for sale	320
Financial assets at fair value through profit or loss	873
Due from other banks	824
Other assets	152
Goodwill arising from acquisition	181
Total assets	**6,463**
Bank customer accounts	(5,574)
Other liabilities	(133)
Total liabilities	**(5,707)**
Net assets	**756**
Carrying amount of net assets disposed of	529
Fair value of remaining 30% interest recognised as investment in associates (Note 9)	227

28 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include entities that are significantly influenced by owners of the Company. The owners of the Company are disclosed in Note 1.

The nature of the relationships with related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 and 2009 are detailed below:

(i) Balances and transactions with other related parties

Year-end balances:	**31 December 2010**	**31 December 2009**
Trade accounts receivable	472	320
Advances issued	2,056	1,574
Other receivables	1,134	1,241
Trade accounts payable	(384)	(939)
Advances received	(4)	(16)
Other accounts payable	(187)	(614)

Transactions carried out during the year:	**2010**	**2009**
Sales of goods and services	709	1,348
Sales of property, plant and equipment	—	6
Purchases of raw materials and consumables	1,498	1,173
Purchases of property, plant and equipment	99	90
Disposal of assets held for sale (Note 27)	428	—
Disposal of interest in subsidiaries	—	767
Purchases of services	1,427	1,565
Interest expense on interest-bearing accounts payable	—	66

Loans advanced to other related parties:	**2010**	**2009**
Beginning of the year	**8,880**	**29,841**
Loans advanced during year	1,068	—
Repayments of loans advanced	(4,803)	(10,390)
Settlement of loans advanced by promissory notes	—	(13,887)
Forex (loss)/gain	(10)	2,129
Interest income accrued	638	2,124
Interest received with promissory notes	—	(90)
Interest received	(13)	(847)
End of the year	**5,760**	**8,880**

Loans received from other related parties:	**2010**	**2009**
Beginning of the year	**188**	**261**
Loans received during the year	—	7
Repayments of loans received	(30)	(86)
Forex loss	—	6
Interest charged	3	9
Interest paid	(3)	(9)
End of the year	**158**	**188**

(ii) Balances and transactions with associates

Year-end balances:	31 December 2010	31 December 2009
Cash and cash equivalents	999	—
Trade accounts receivable	11	10
Other receivables	2	5

Transactions carried out during the year:	2010	2009
Sales of goods and services	70	43
Purchases of raw materials and consumables	2	90
Purchases of promissory notes	30	—

Loans advanced to associates:	2010	2009
Beginning of the year	**—**	**—**
Loans advanced to a party which ceased to be assets held for sale (Note 27)	130	—
End of the year	**130**	**—**

(iii) Key management personnel compensation

Compensation of key management personnel consists of remuneration paid to managing directors of the Group's main subsidiaries and to members of the Company's Boards of Directors and its main subsidiaries. Compensation comprises annual remuneration and a performance bonus contingent on operating results.

Total key management personnel compensation included in general and administrative expenses amounted to RUB 1,222 million (2009: RUB 301 million).

(iv) Guarantees issued

At 31 December 2010, the Group had outstanding guarantees issued in respect of obligations of other related parties of RUB 6,322 million (2009: RUB 4,497 million).

(v) Guarantees received

At 31 December 2009, long-term borrowings of RUB 9,073 million were guaranteed by other related party. By 31 December 2010, the borrowings were settled ahead of schedule and the guarantee ceased.

(vi) Operating lease

In August 2008 the Group entered into a rent agreement with other related party to lease office premises for 10 years. The total lease payments for the 10-year period amount to RUB 9,849 million. In 2010 lease charges amounted to RUB 1,065 million (2009: RUB 979 million).

29 Liability to the regional administration

In April 2005 OAO Ural Steel, a subsidiary of the Group, entered into a long-term agreement with the Orenburg region administration. In accordance with the agreement, the Group is obliged to pay EUR 134 million in financial support to the administration by December 2034. The liability was recorded at the net present value of the amounts to be paid. The discount rate used to calculate the net present value of liability was 11%.

Liability to the regional administration—payments:	31 December 2010	31 December 2009
Not later than 1 year	154	135
Later than 1 year and not later than 5 years	679	675
Later than 5 years	5,167	5,255
Future finance charges	(4,280)	(4,276)
Present value of liability	**1,720**	**1,789**

The present value of the liability matures as follows:	**31 December 2010**	**31 December 2009**
Not later than 1 year	137	122
Later than 1 year and not later than 5 years	460	475
Later than 5 years	1,123	1,192
	1,720	**1,789**

30 Contingencies, commitments and operating risks

(i) Contractual commitments

As at 31 December 2010 the Group had contractual commitments of RUB 12,475 million (2009: RUB 6,331 million) for the purchase of property, plant and equipment.

(ii) Tax contingencies

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

In addition to the above transfer pricing and permanent establishment matters management estimates that the Group has possible obligations from exposure to other than remote tax risks of RUB 5,050 million (2009: RUB 3,511 million). These exposures primarily relate to taxes (profits tax and VAT), penalties and late payment interest arising from intercompany charges and certain expenses incurred by the Group entities.

(iii) Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group had outstanding issued guarantees for obligations of related parties in the amount of RUB 6,322 million (2009: RUB 4,497 million) and obligations of third parties of RUB 40 million (2009: RUB 50 million). The maximum exposure to credit risk arising from guarantees issued is limited to the amounts guaranteed.

At 31 December 2010, guarantees of RUB 330 million (2009: RUB 3,960 million) were issued for obligations of related and third parties with maturities less than twelve months after the end of the reporting period and guarantees of RUB 6,032 million (2009: RUB 587 million) were issued for obligations with maturities more than twelve months after the end of the reporting period.

The Group does not expect any cash outflow resulting from the guarantees provided.

(iv) Insurance policies

The Group holds insurance policies on its assets and operations, including insurance policies covering export shipments, as well as in respect of public liability and other insurable risks.

(v) Environmental matters

Environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under the existing legislation, management believes that there are no significant liabilities for environmental damage.

(vi) Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(vii) Operating environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian and world economy and the financial situation in financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian and world economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 30 (ii)). The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

31 Derivative financial instruments

In February 2009, the Group signed a termination agreement for all derivative financial instruments held at 31 December 2008. The transaction has been accounted for as an extinguishment of the financial liability, resulting in a net gain of RUB 12,765 million. In accordance with the agreement, the Group has to pay a USD 109 million (RUB 3,204 million) cancellation fee, of which USD 20 million was paid in February 2009 and USD 89 million is to be paid in equal monthly instalments by July 2011.

At 31 December 2010 the outstanding balance of the cancellation fee was RUB 484 million and included in current accounts payable (2009: RUB 1,635 million, of which RUB 481 million was included in non-current accounts payable). The accounts payable balance bears 8% interest per annum.

At 31 December 2010 and 2009 the fair value of accounts payable approximates their carrying amounts.

32 Financial risk management

Financial risk factors

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risks comprise market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Financial risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Concentrations of risk

Concentrations of financial risk arise when financial instruments with identical characteristics are influenced in the same way by changes in economic and other factors. The identification of risk concentrations is subject to discretionary assessment. The general purpose of risk management in the Group is to reduce and control risk concentrations. With respect to credit risk, this is reflected in the requirement to maintain a credit portfolio with a sound sectoral and geographical balance and a syndication policy that guides the exposure to individual customers and industries. With respect to market risk, concentration risk is restricted by limits ensuring that exposure is divided among number of instruments, ensuring sound diversification to meet changes in share prices, exchange rates and interest rate levels.

(a) Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated—for example, changes in interest rates and changes in foreign currency rates.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EUR. Foreign exchange risk arises from recognised assets and liabilities and investments in foreign operations.

The Group does not have formal arrangements to mitigate foreign exchange risks of its operations. However, management monitors the net monetary position of the Group's financial assets and liabilities denominated in foreign currencies on a regular basis.

The analysis below includes only monetary assets and liabilities and does not include foreign exchange risk of financial derivatives which is discussed in Note 31. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

At 31 December 2010, if the Russian rouble had weakened/strengthened by 4% (2009: 10%) against the US dollar with all other variables held constant, post-tax profit for the year would have been RUB 1,589 million (2009: RUB 6,977 million) lower /higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated borrowings and loans advanced to related parties. Profit is less sensitive to movements in US dollar exchange rates in 2010 than 2009 because of the decreased amount of US dollar-denominated borrowings.

At 31 December 2010 if the Russian rouble had weakened/strengthened by 8% (2009: 5%) against the EUR with all other variables held constant, post-tax profit for the year would have been RUB 764 million (2009: RUB 537 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade receivables and borrowings.

(ii) Price risk

The Group has limited exposure to equity and debt securities price risk in respect of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. There are no formal procedures established to manage the price risk. Transactions in equity and debt securities are authorised by the Board of Directors.

At 31 December 2009, the revaluation reserve in equity is not sensitive to variability of equity and debt securities price risk due to the sale of corporate shares previously classified as available-for-sale. During 2010 the Group had no investments classified as available-for-sale.

(iii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring current market interest rates and analysing the Group's interest-bearing position is performed by the Group's finance department as a part of the interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The interest rate risk profile of the Group was as follows:

	31 December 2010	31 December 2009
Fixed rate instruments		
Financial assets	4,164	10,608
Financial liabilities	(94,633)	(103,396)
	(90,469)	**(92,788)**
Variable rate instruments		
Financial assets	—	—
Financial liabilities	(33,437)	(62,857)
	(33,437)	**(62,857)**

All other financial instruments are non-interest bearing.

Fair value sensitivity analysis for fixed rate instruments

The Group does not have significant fixed rate financial assets carried at fair value. Therefore, a change in interest rates at the end of the reporting period would not affect the Group's comprehensive income significantly.

Cash flow sensitivity analysis for variable rate instruments

Cash flow interest rate risk sensitivity analysis is primarily based on LIBOR and EURIBOR interest rate volatility and the following assumptions:

- Profit or loss impacts assume adjustments to interest income and expense for a 12-month period.
- The balance of interest bearing financial instruments at the end of the reporting period is representative of the balance for the year as a whole and hypothetical interest rate movements are deemed to apply for the entire reporting period.

At 31 December 2010, if interest rates on USD-denominated borrowings had been 100 basis points (2009: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been RUB 163 million (2009: RUB 241 million) lower/higher as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

At 31 December 2010, if interest rates on EUR-denominated borrowings had been 100 basis points (2009: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been RUB 94 million (2009: RUB 95 million) lower/higher, as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

There would be no material effect on equity reserves other than those relating directly to movements in the profit or loss.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and bank deposits, loans advanced and financial guarantees issued. The Group has no other significant concentrations of credit risk.

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the statement of financial position is as follows:

	31 December 2010	31 December 2009
Cash and cash equivalents	4,633	12,327
Restricted cash	—	176
Trade and other receivables (Notes 12, 14)	20,821	16,359
Loans advanced	3,996	7,612
Total on-balance sheet exposure	**29,450**	**36,474**
Financial guarantees—amounts of guaranteed loans (Note 30)	6,362	4,547
Total maximum exposure to credit risk	**35,812**	**41,021**

The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Cash and cash equivalents. Cash, cash equivalents and short-term deposits are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. No bank balances and term deposits are past due or impaired.

Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2010		31 December 2009	
	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
Rating				
Low credit risk (A-AAA)	1,995	108	2,570	505
Medium credit risk (B-BBB)	1,356	59	6,438	2,118
Unrated	1,115	—	297	399
Total	**4,466**	**167**	**9,305**	**3,022**

At 31 December 2010, unrated bank balances payable on demand include cash and cash equivalents of RUB 999 million in associated bank (Note 28 (ii)).

Trade and other receivables. The Group assesses the credit quality of customers taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Group provides it with purchase and payment terms. The Group's commercial department reviews an ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large consumers of iron ore and steel products which have a similar credit risk profile for the Group. The Group does not manage its customers by class for credit risk management purposes.

The Group is exposed to concentrations of credit risk. At 31 December 2010, the Group had 10 counterparties (2009: 9 counterparties) with aggregated receivables balances of over RUB 500 million. The total aggregate amount of these balances was RUB 10,852 million (2009: RUB 9,500 million) or 52% (2009: 58%) of the gross amount of trade and other receivables.

Loans advanced. Included in loans advanced are loans to entities related to the owners of the Group of RUB 3,822 million (2009: RUB 7,436 million) (Note 11 and Note 28). The Group does not hold any collateral as security for loans issued to related parties. None of the loans advanced is past due or impaired. Management does not expect any losses from non-performance by these entities.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for managing liquidity risk, including

funding, settlements, and related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the finance department.

The table below analyses the Group's financial liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the balance sheet amount is based on discounted cash flows.

As at 31 December 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings	47,491	87,672	2,687	1,881
Trade and other payables (Note 17)	8,299	—	—	—
Liability to the regional administration	154	307	372	5,167
Total	**55,944**	**87,979**	**3,059**	**7,048**

As at 31 December 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings	70,742	88,431	30,181	1,575
Trade and other payables	9,294	664	188	—
Liability to the regional administration	135	324	351	5,255
Total	**80,171**	**89,419**	**30,720**	**6,830**

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period. The liquidity risk associated with guarantees issued is disclosed in Note 30 (iii).

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group capital management includes compliance with externally imposed minimal capital requirements arising from the Group's borrowings. The Group determines capital as total equity as shown in the consolidated statement of financial position.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows

expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. At 31 December 2010 and 31 December 2009, the carrying amounts of trade and other payables approximate their fair values. Refer to Note 15 for the estimated fair values of borrowings.

33 Events after the reporting period

In March 2011 the Group entered into an agreement to acquire 75,240,247 American depositary receipts (ADRs) representing approximately 4.0 per cent interest in OJSC "MMC "Norilsk Nikel" for a total consideration of USD 2,200 million.

In April 2011 the Group signed a syndicated credit facility agreement for USD 3,100 million of which USD 1,070 million was used to refinance existing syndicated credit facility obtained in July 2008.The new facility consists of two parts which bear interest of LIBOR plus 1.75 to 3.0 and LIBOR plus 4.65 and mature in 2016 and 2018, respectively.

OAO Holding Company METALLOINVEST

Condensed consolidated interim financial information

31 March 2011

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Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholders of OAO Holding Company METALLOINVEST:

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of OAO Holding Company METALLOINVEST and its subsidiaries (the "Group") as of 31 March 2011 and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

24 June 2011
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
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	Note	31 March 2011	31 December 2010
ASSETS			
Non-current assets:			
Property, plant and equipment	5	99,767	99,265
Intangible assets	5	18,805	18,772
Mineral rights		52,739	53,251
Goodwill		11,714	11,714
Investments in associates		2,566	2,273
Loans advanced		1,858	1,250
Other non-current assets	6	5,317	4,216
Total non-current assets		**192,766**	**190,741**
Current assets:			
Inventories		21,339	23,085
Trade and other receivables		30,469	28,412
Derivative financial instruments	10	2,324	—
Loans advanced		3,985	2,746
Current income tax prepayment		75	266
Restricted cash		7	—
Cash and cash equivalents		10,659	4,633
Total current assets		**68,858**	**59,142**
TOTAL ASSETS		**261,624**	**249,883**
EQUITY			
Share capital		5,527	5,527
Retained earnings and other reserves		88,715	68,975
Equity attributable to the Company's owners		**94,242**	**74,502**
Non-controlling interests		2,666	2,703
TOTAL EQUITY		**96,908**	**77,205**

	Note	31 March 2011	31 December 2010
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	7	74,062	85,726
Deferred income tax liability		19,854	19,047
Liability to the regional administration		1,618	1,583
Accounts payable		68	68
Employee benefit obligations	8	8,862	8,703
Total non-current liabilities		**104,464**	**115,127**
Current liabilities:			
Short-term borrowings	7	44,785	40,651
Accounts payable		10,832	13,355
Income tax payable		1,864	1,286
Value added tax and other taxes payable		2,636	2,122
Liability to the regional administration		135	137
Total current liabilities		**60,252**	**57,551**
TOTAL LIABILITIES		**164,716**	**172,678**
TOTAL LIABILITIES AND EQUITY		**261,624**	**249,883**

Approved for issue and signed on 24 June 2011.

A.V. Varichev
Chief Executive Officer
OAO Holding Company METALLOINVEST

E.L. Potapov
Chief Executive Officer
OOO Management Company METALLOINVEST

The accompanying notes on pages F-120 to F-126 are an integral part of this condensed consolidated interim financial information.

Consolidated Interim Statement of Comprehensive Income
for the three months ended 31 March 2011
(in millions of Russian roubles, unless otherwise stated)

	Note	Three months ended 31 March 2011	Three months ended 31 March 2010
Sales		70,740	44,406
Cost of sales		(32,574)	(27,154)
Gross profit		**38,166**	**17,252**
Distribution expenses		(11,493)	(6,815)
General and administrative expenses		(2,878)	(2,305)
Gain on initial recognition of derivative financial instruments	10	2,324	—
Other operating expenses		(802)	(515)
Operating profit		**25,317**	**7,617**
Finance income		91	346
Finance costs		(2,489)	(3,559)
Foreign exchange gain from borrowings		947	2,678
Share of net profit/(loss) of associates		5	(27)
Profit before income tax		**23,871**	**7,055**
Income tax charge		(5,212)	(2,131)
Profit for the period		**18,659**	**4,924**
Other comprehensive income			
Currency translation differences		1,612	719
Actuarial loss on employee benefit obligations		—	(967)
Other comprehensive income for the period		**1,612**	**(248)**
Total comprehensive income for the period		**20,271**	**4,676**
Profit is attributable to:			
Owners of the Company		18,656	4,895
Non-controlling interests		3	29
		18,659	**4,924**
Total comprehensive income is attributable to			
Owners of the Company		20,268	4,647
Non-controlling interests		3	29
		20,271	**4,676**
Basic and diluted earnings per ordinary share for profit attributable to the owners of the Company (in RUB per share)		0.23	0.06

The accompanying notes on pages F-120 to F-126 are an integral part of this condensed consolidated interim financial information.

	Three months ended 31 March 2011	Three months ended 31 March 2010
Cash flows from operating activities		
Profit before income tax	23,871	7,055
Adjustments for:		
Depreciation of property, plant and equipment	2,506	2,342
Amortisation of intangible assets and mineral rights	660	655
Loss on disposal of property, plant and equipment	24	22
Gain on initial recognition of derivative financial instruments (Note 10)	(2,324)	—
Provision for impairment of receivables and prepayments/(reversal of provision for impairment of receivables and prepayments)	35	(35)
Inventories write-down	2	102
Finance cost (net)	2,398	3,213
Foreign exchange gain	(582)	(2,485)
Employee benefit obligations	86	527
Share of net (profit)/loss of associates	(5)	27
Other	(67)	4
Operating cash flow before changes in working capital	**26,604**	**11,427**
Inventories	1,867	1,733
Trade and other receivables	(2,272)	(4,452)
Trade and other payables	(1,486)	623
Assets held for sale	—	(23)
Employee benefit obligations	(117)	(107)
Cash generated from operations	**24,596**	**9,201**
Interest paid	(2,093)	(2,392)
Income tax paid	(3,636)	(973)
Waiver fees and other charges	(49)	(12)
Net cash inflow from operating activities	**18,818**	**5,824**
Cash flows from investing activities		
Purchases of property, plant and equipment; intangible assets and exploration and evaluation expenditure	(5,141)	(1,892)
Proceeds from the sale of property, plant and equipment and intangible assets	—	33
Acquisition of additional interest in subsidiaries and associates	(192)	—
Change in restricted cash balances	(7)	157
Loans advanced	(2,072)	—
Repayment of loans advanced	174	—
Interest income received	58	88
Net cash outflow from investing activities	**(7,180)**	**(1,614)**

	Three months ended 31 March 2011	Three months ended 31 March 2010
Cash flows from financing activities		
Repayment of borrowings	(10,416)	(18,958)
Proceeds from borrowings	6,008	11,792
Payments of financial liability	(277)	(285)
Acquisition of additional interest in subsidiaries	(568)	—
Net cash outflow from financing activities	**(5,253)**	**(7,451)**
Effect of exchange rate changes on cash and cash equivalents	(359)	(135)
Net increase/(decrease) in cash and cash equivalents	**6,026**	**(3,376)**
Cash and cash equivalents at the beginning of the period, net of restricted cash	**4,633**	**14,638**
Included in cash and cash equivalents per the statement of financial position	4,633	12,327
Included in the assets of the disposal group	—	2,311
Cash and cash equivalents at the end of the period, net of restricted cash	**10,659**	**11,262**
Included in cash and cash equivalents per the statement of financial position	10,659	8,951
Included in the assets of the disposal group	—	2,311

The accompanying notes on pages F-120 to F-126 are an integral part of this condensed consolidated interim financial information.

	Attributable to owners of the Company					
	Share capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2011	**5,527**	**(5,138)**	**74,113**	**74,502**	**2,703**	**77,205**
Profit for the period	—	—	18,656	18,656	3	18,659
Other comprehensive income						
Currency translation differences	—	1,612	—	1,612	—	1,612
Actuarial loss on employee benefit obligations	—	—	—	—	—	—
Total comprehensive income for the period ended 31 March 2011	**—**	**1,612**	**18,656**	**20,268**	**3**	**20,271**
Acquisition of additional interest in subsidiaries	—	—	(528)	(528)	(40)	(568)
Balance at 31 March 2011	**5,527**	**(3,526)**	**92,241**	**94,242**	**2,666**	**96,908**
Balance at 1 January 2010	**5,527**	**(4,936)**	**45,059**	**45,650**	**2,354**	**48,004**
Profit for the period	—	—	4,895	4,895	29	4,924
Other comprehensive income						
Currency translation differences	—	719	—	719	—	719
Actuarial loss on employee benefit obligations	—	—	(967)	(967)	—	(967)
Total comprehensive income for the period ended 31 March 2010	**—**	**719**	**3,928**	**4,647**	**29**	**4,676**
Balance at 31 March 2010	**5,527**	**(4,217)**	**48,987**	**50,297**	**2,383**	**52,680**

The accompanying notes on pages F-120 to F-126 are an integral part of this condensed consolidated interim financial information.

1 General information

OAO Holding Company METALLOINVEST and its subsidiaries (the "Group") principal activity is the production and sale of iron ore products and ferrous metals. These products are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is Lesnaya str., 3, Moscow, Russia. The Group's manufacturing facilities are primarily based in Kursk, Belgorod and Orenburg regions.

The principal activities of the Group are not subject to seasonal fluctuations.

At 31 March 2011 and at 31 December 2010, Gallagher Holdings Limited (Cyprus) owned a 50% stake in the Company, Seropaem Holdings Limited (Cyprus) owned a 30% stake and Coalco Metals Limited (Cyprus) owned a 20% stake.

During the three months ended 31 March 2011 and 31 March 2010 the Company did not pay dividends to its owners.

2 Basis of preparation

This condensed consolidated interim financial information for the three months ended 31 March 2011 has been prepared in accordance with IAS 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs.

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010.

The following new standards have been issued, but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation—special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Group is currently assessing the impact of new standards on its financial statements.

4 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors of the Group. The Group is organised on the basis of the following reportable operating segments:

- Mining—production and sale of iron ore products (includes LGOK and MGOK);
- Steel—production and sale of ferrous metal products (includes OEMK, Ural Steel and Ural Scrap Company);
- Trading—overseas trading of the Group's products (includes Ferrous Metal Company Limited and Metalloinvest Trading AG);
- Transportation—transportation and logistics services rendered by Metalloinvesttrans.

Other activities have been included in the "All other segments" column. These activities include central management, certain services and investment activities and the Group's activities in exploration and evaluation of oil and gas and copper deposits.

Segment information for the three months ended 31 March 2011 is as follows:

	Mining	Steel	Trading	Transportation	All other segments	Eliminations	Total
External revenue	10,247	20,123	37,865	565	1,940	—	70,740
Inter-segment revenue	23,926	13,214	1,929	3,738	15	(42,822)	—
Total revenue	**34,173**	**33,337**	**39,794**	**4,303**	**1,955**	**(42,822)**	**70,740**
EBITDA	**21,555**	**4,597**	**463**	**852**	**(544)**		**26,923**
Depreciation and amortisation	818	1,001	—	265	102	—	2,186
Interest income	36	8	1	1	43	—	89
Inter-segment interest income	553	333	—	81	191	(1,158)	—
Interest expense	1,069	773	85	104	42		2,073
Inter-segment interest expense	288	85	—	—	785	(1,158)	—
Income tax charge/(credit)	4,320	869	76	122	(176)	—	5,211

Segment information for the three months ended 31 March 2010 is as follows:

	Mining	Steel	Trading	Transportation	All other segments	Eliminations	Total
External revenue	9,185	14,021	20,566	581	53	—	44,406
Inter-segment revenue	9,690	10,008	721	3,305	20	(23,744)	—
Total revenue	**18,875**	**24,029**	**21,287**	**3,886**	**73**	**(23,744)**	**44,406**
EBITDA	**8,280**	**2,614**	**107**	**948**	**(412)**		**11,537**
Depreciation and amortisation	777	821	—	262	49	—	1,909
Interest income	44	65	2	—	232	—	343
Inter-segment interest income	425	997	—	—	35	(1,457)	—
Interest expense	1,371	1,297	34	16	450	—	3,168
Inter-segment interest expense	708	6	—	—	743	(1,457)	—
Income tax (credit)/charge	1,512	729	6	108	(100)	—	2,255
Total reportable segment assets							
31 March 2011	**14,057**	**13,997**	**557**	**2,829**	**(625)**	**—**	**30,815**
31 December 2010	**12,476**	**14,305**	**1,248**	**2,591**	**(202)**	**—**	**30,418**

A reconciliation of EBITDA to profit before tax is provided as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
EBITDA for reportable segments	**27,467**	**11,949**
Other segments EBITDA	**(544)**	**(412)**
Adjustments to EBITDA arising from differences in management accounting and requirements of IFRS:		
Capitalisation of elements of cost of non-current assets recognised as expenses in profit or loss in accordance with RAS	166	91
Additional loss on disposal of property, plant and equipment	(14)	(25)
Unrealised profits adjustment	(1,052)	(199)
Additional provision for impairment of receivables	(34)	(68)
Employee benefit obligations adjustment	31	(420)
Annual bonus accrual reverse	1,082	—
Other adjustments	(578)	(109)
	26,524	**10,807**
Other reconciling items:		
Depreciation and amortisation	(3,166)	(2,997)
Finance income	91	346
Gain on initial recognition of derivative financial instruments	2,324	—
Finance costs	(2,489)	(3,559)
Foreign exchange gain	582	2,485
Share of net profit/(loss) of associates	5	(27)
Profit before tax	**23,871**	**7,055**

An analysis of the Group's revenues from external customers by their geographical location presented as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Russia	24,326	18,801
China	11,258	1,396
CIS	6,071	4,678
Turkey	3,830	2,530
Iran	3,818	1,222
Slovakia	2,885	1,946
Cooperation Council for the Arab States of the Gulf	2,654	—
France	1,620	588
USA	1,561	3
Germany	1,530	554
The Netherlands	1,450	868
Poland	1,141	422
Italy	1,076	1,026
Spain	963	916
Czech Republic	950	728
Egypt	890	379
Hungary	733	300
Japan	701	—
UK	608	415
Taiwan	587	614
Korea	232	877
Vietnam	75	1,651
Philippines	—	950
Other countries	1,781	3,542
Total consolidated revenues	**70,740**	**44,406**

5 Property, plant and equipment and intangible assets

Three months ended 31 March 2011	Property, plant and equipment	Intangible assets (excluding goodwill)
Opening net book amount at 1 January 2011	**99,265**	**18,772**
Additions	3,915	181
Disposals	(444)	—
Depreciation and amortisation	(2,615)	(148)
Currency translation differences	(354)	—
Closing net book amount at 31 March 2011	**99,767**	**18,805**

Three months ended 31 March 2010	Property, plant and equipment	Intangible assets (excluding goodwill)
Opening net book amount at 1 January 2010	**94,747**	**18,815**
Additions	1,390	3
Disposals	(62)	—
Depreciation and amortisation	(2,384)	(143)
Currency translation differences	(33)	—
Closing net book amount at 31 March 2010	**93,658**	**18,675**

As of 31 March 2011, the Group had contractual commitments for the purchase of property, plant and equipment for RUB 11,247 million (31 December 2010: RUB 12,475 million).

6 Other non-current assets

	31 March 2011	31 December 2010
Long-term receivables, including interest of RUB 38 million (31 December 2010: RUB 15 million) accrued on long-term loans advanced	549	122
Advances to suppliers of property, plant and equipment	5,366	4,442
Less: provision for impairment of advances to suppliers	(681)	(702)
Other	83	354
Total other non-current assets	**5,317**	**4,216**

7 Short-term and long-term borrowings

	31 March 2011	31 December 2010
Long-term borrowings	74,062	85,726
Short-term borrowings	37,212	32,066
Bank overdraft	7,573	8,585
Total borrowings	**118,847**	**126,377**

Movements in borrowings are analysed as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Opening amount at 1 January	**126,377**	**164,491**
Borrowings received	6,019	11,766
Repayments of borrowings	(10,283)	(18,546)
Foreign exchange gain, net	(3,266)	(3,535)
Closing amount at 31 March	**118,847**	**154,176**

Interest accrued on borrowings with maturities less than twelve months after the end of the reporting period of RUB 100 million (31 December 2010: RUB 115 million) are presented in current accounts payable.

8 Employee benefit obligations

The Group companies operate both funded and unfunded post-employment benefits plans.

Amounts recognised in the statement of comprehensive income were as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Current service costs	70	59
Interest costs	193	153
Expected return on assets	(2)	(2)
Past service costs	16	468
Net periodic benefit costs	**277**	**678**
Recognised actuarial loss	—	967

Amounts recognised in the statement of financial position were as follows:

	31 March 2011	31 December 2010
Present value of defined benefit obligations	**9,765**	**9,623**
Fair value of plan assets	(81)	(82)
Unrecognised past service costs	(822)	(838)
Net liability in the statement of financial position	**8,862**	**8,703**

9 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include entities that are significantly influenced by the Company's shareholders. The Company's shareholders are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 March 2011 and 31 December 2010 are detailed below:

(i) Balances and transactions with other related parties

Period-end balances:	31 March 2011	31 December 2010
Trade accounts receivable	449	472
Advances issued	2,493	2,056
Other receivables	1,546	1,134
Trade accounts payable	(472)	(384)
Advances received	(1)	(4)
Other accounts payable	(187)	(187)

The transactions carried out during the period	Three months ended 31 March 2011	Three months ended 31 March 2010
Sales of goods and services	264	168
Purchases of raw materials and components	321	312
Purchases of property, plant and equipment	1,967	2
Purchase of services	404	348
Acquisition of interest in associate	205	—

Loans advanced to other related parties:	Three months ended 31 March 2011	Three months ended 31 March 2010
At 1 January	**5,760**	**8,880**
Loans advanced during the period	2,071	—
Repayments of loans advanced	(62)	—
Forex exchange loss	(51)	—
Interest income accrued	76	235
Interest income received	(16)	(2)
At 31 March	**7,778**	**9,113**

Loans received from other related parties:	Three months ended 31 March 2011	Three months ended 31 March 2010
At 1 January	158	188
Repayments of loans received	—	(5)
Forex exchange gain	(10)	(5)
At 31 March	**148**	**178**

(ii) Balances and transaction with associates

Period-end balances arising from transactions with associates:	31 March 2011	31 December 2010
Cash and cash equivalents	285	999
Loans advanced to associate	130	130

The transactions carried out with associates:	Three months ended 31 March 2011	Three months ended 31 March 2010
Sales of goods and services	21	13

(iii) Guarantees issued

At 31 March 2011, the Group's guarantees against obligations of other related parties amounted to RUB 6,311 million (31 December 2010: RUB 6,322 million).

(iv) Guarantees received

At 31 March 2011, long-term borrowings and short-term borrowings of RUB 768 million and RUB 52 million, respectively, were guaranteed by one of the Company's owners.

(v) Operating lease

In August 2008, the Group entered into a rent agreement with other related party to lease office premises for 10 years. The total lease payments for a 10-year period amount to RUB 9,849 million. During the three months ended 31 March 2011 lease charges amounted to RUB 264 million (the three months ended 31 March 2010: RUB 266 million).

(vi) Key management personnel compensation

Compensation of key management personnel consists of remuneration paid to managing directors of the Group's main subsidiaries and to members of the Company's Boards of Directors and its main subsidiaries. Compensation comprises short-term benefits.

Total key management personnel compensation included in general and administrative expenses for the three months ended 31 March 2011 amounted to RUB 104 million (the three months ended 31 March 2010: RUB 55 million).

(vii) Acquisition of American depository receipts

In March 2011 the Group entered into an agreement to acquire American depository receipts (ADRs) of OJSC "MMC "Norilsk Nickel". The transaction is presented as a related party transaction (Note 10).

10 Derivative financial instruments

In March 2011 the Group entered into an agreement giving the Group the right to acquire 75,240,247 American depository receipts (ADRs) representing approximately 4.0 per cent interest in OJSC "MMC "Norilsk Nickel" for USD 2,200 million. The Group recognised a written call option which can be exercised from 23 March 2011 to 30 September 2011. The market value of the ADRs at the end of the reporting period was USD 1,989 million or RUB 56,555 million. The Group recognised the fair value of the outstanding call option as an asset of RUB 2,324 million.

In May and June 2011 the Group exercised the option and acquired 75,240,247 ADRs for USD 2,200 million or RUB 60,401 million. The market value of the ADRs at the dates of acquisition amounted to RUB 53,242 million. The purchase price of the ADRs exceeded market value at the date of acquisition by RUB 7,159 million.

11 Events after the reporting period

Borrowings

In April 2011 the Group signed a syndicated credit facility agreement for USD 3,100 million of which USD 1,070 million was used to refinance existing syndicated credit facility obtained in July 2008. The new facility consists of two parts of which USD 3.0 billion matures in 2016 and contains the margins that are linked to the leverage ratio and currently are LIBOR plus 2.25 based on the 2010 financial year results. The remaining part of USD 100 million bears interest rate of LIBOR plus 4.65 and matures in 2018.

Dividends

In April 2011 the Company declared a dividend on ordinary shares of RUB 7,474 million (RUB 0.09 per ordinary share) which was paid in April and May 2011.

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