



## **MMK Finance S.A.**

Luxembourg, Grand-Duchy of Luxembourg

**€ 100,000,000**  
**10 % Notes of 2002/2005**

(the "Notes")

unconditionally and irrevocably guaranteed by

## **Open Joint Stock Company** **Magnitogorsk Iron and Steel Works**

Magnitogorsk, Russian Federation

**Issue Price: 99.75 %**

**Settlement Date: 18 February 2002**

For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Notes see "Investment Considerations".

Application has been made to list the Notes on the Luxembourg Stock Exchange.

### **Deutsche Bank**

**Bank Evrofinance**

**Bank of Moscow**

**Bank ZENIT (OJSC)**

**Caboto IntesaBci**

**Gazprombank**

**JSCB ROSBANK**

**Moscow Narodny Bank**

**MPS Finance B.M. S.p.A.**

**NIKoil**

**UBM – UniCredit Banca Mobiliare**

**Westdeutsche Landesbank Girozentrale**

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by MMK Finance S.A. (hereinafter also referred to as "MMK Finance" or the "Issuer") and Open Joint Stock Company Magnitogorsk Iron and Steel Works ("MMK" hereinafter also referred to as the "Guarantor" and together with its subsidiaries as "MMK Group" and in the context of the consolidated financial statements set out herein also referred to as "OAO Magnitogorsk Metallurgical Kombinat" and together with its subsidiaries as the "Group") to inform themselves about and to observe any such restriction.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, and include Notes in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons.

This document may not be publicly distributed in the Grand-Duchy of Luxembourg, the Russian Federation or in Germany.

This document may only be communicated or caused to be communicated in circumstances in which section 21 (1) of the Financial Services and Markets Act 2000 ("FSMA") does not apply.

The Issuer and the Guarantor, having made all reasonable enquiries, confirm as of the date hereof that this Offering Circular, taken as a whole, contains all information with respect to the Issuer, the Guarantor and the Notes that is material in the context of the issue and offering of the Notes, that such information is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein with regard to the Issuer and the Guarantor are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions. There are no other facts in relation to the Issuer, the Guarantor or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement herein misleading in any material respect, and all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements. Each of the Issuer and the Guarantor accepts responsibility accordingly.

No person is authorised to give any information or to make any representations, other than those contained in this Offering Circular, in connection with the issue and sale of the Notes, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer and the Guarantor, or by each Manager (as defined below). Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or each Manager (as defined below) to subscribe for or purchase any of the Notes.

**In connection with this issue, Deutsche Bank AG London or any person acting for it may overallocate or effect transactions which stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail. However, there may be no obligation on Deutsche Bank AG London or any of its agents to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.**

#### **Enforcement of Civil Liabilities**

The Guarantor is an open joint stock company incorporated under Russian law.

Russian courts will not enforce any judgement obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing for reciprocal enforcement of court judgements, there is "de facto" enforcement in such country of judgements rendered by Russian courts or there is a provision in the law of such country that provides for enforcement of judgements of Russian courts. As of the date of this Offering Circular, there are no such treaties between Russia and Germany or Luxembourg for reciprocal enforcement of court judgements. In any case, Russian courts will not enforce any judgement obtained in a court outside Russia if the defendant was not duly summoned or represented and fundamental procedural rights were not observed, the judgement in question was rendered with respect to a matter within the exclusive jurisdiction of Russian courts, there is already a Russian court judgement or pending proceedings before the Russian court on the same subject matter between the same parties, the judgement is clearly against Russian public policy, the foreign judgement is not final or if the foreign judgement is submitted for enforcement after the expiry of a specific period established by Russian law.

#### **CBR Licence**

**As a matter of Russian law, payments under the Guarantee by the Guarantor are subject to the licencing by the Central Bank of the Russian Federation (the "CBR"). As of the date of the Offering Circular, the Guarantor has formally applied for but not yet obtained such licence authorising payments under the Guarantee (see "CBR Licence", page 14).**

## Table of Contents

	Page
Presentation of Certain Information .....	4
General Information .....	5
Issuance .....	5
Selling Restrictions .....	5
Listing Information .....	6
Incorporation by Reference .....	6
Paying Agents .....	6
Delivery of the Notes .....	7
Availability of Documents .....	7
Use of Proceeds .....	7
Material Change .....	7
Litigation .....	7
Security Codes .....	7
Subscription and Sale .....	7
Taxation .....	8
Investment Considerations .....	10
Conditions of Issue .....	15
The Guarantee .....	22
MMK Finance S.A. ....	28
Incorporation and Seat .....	28
Objects .....	28
Capital Stock and Ownership .....	28
Capitalisation .....	28
Management .....	29
General Meeting of Shareholders .....	29
Independent Auditors .....	29
Financial Year .....	29
Open Joint Stock Company Magnitogorsk Iron and Steel Works .....	30
Incorporation and Seat .....	30
Objects and Main Activities .....	30
Capital Stock and Ownership .....	30
Capitalisation .....	31
Management .....	33
Ordinary Shareholders' Meeting .....	33
Independent Auditors .....	34
Financial Year .....	34
Business Description .....	34
Financial Statements for the Year Ended 31 December 2000 .....	41
Recent Developments and Outlook .....	68

## **Presentation of Certain Information**

In this Offering Circular, unless otherwise specified, references to "RUR", "Rouble", "Ruble" or "R" are to the lawful currency for the time being of the Russian Federation, references to "euro", "Euro", "EUR" or "€" are to the single currency introduced in the member states of the European Union which adopted such single currency at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union, and references to "U.S.\$", "U.S. dollars", "USD" or "dollars" are to the lawful currency for the time being of the United States of America.

No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Roubles, as the case may be, at the exchange rates referred to herein, at any particular exchange rate or at all. Conversions of Rouble amounts into U.S. dollars are solely for the convenience of the reader. The Central Bank of Russia's official exchange rate fixed for 15 February 2002 was RUR 30.8281 to USD 1.

The reporting currency for the purposes of the consolidated financial statements and other financial information contained herein is the U.S. dollar. The U.S. dollar has been used as the reporting currency as MMK considers that financial information presented in that currency is more useful and better reflects the economic substance of the underlying events and circumstances relevant to the MMK Group's financial position and results.

The Rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Rouble amounts to U.S. dollars should not be construed as a representation that Rouble amounts have been, could be, or will be in the future, convertible into U.S. dollars at the exchange rate shown, or at any other exchange rate.

## General Information

### Issuance

The issue of the € 100,000,000 10% Notes of 2002/2005 described in this Offering Circular was authorised by the Board of Directors of the Issuer on 14 February 2002. The guarantee given by MMK was authorised by its Management Board on 25 January 2002.

### Selling Restrictions

*The Grand-Duchy of Luxembourg:* Each Manager has represented and agreed that it has not and will not make any public offering or sale of the Notes and has not distributed and will not distribute any offering material relating to the Notes in or from the Grand-Duchy of Luxembourg, except for those Notes in respect of which the requirements of Luxembourg law concerning public offerings of securities in the Grand-Duchy of Luxembourg have been fulfilled. A listing on the Luxembourg Stock Exchange of the Notes does not necessarily imply that a public offering in the Grand-Duchy of Luxembourg has been authorised.

*The Russian Federation:* Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment to any purchaser located within the territory of the Russian Federation.

*Germany:* Each Manager has acknowledged that the Notes are subject to the restrictions provided in the German Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) with respect to Euro-Securities (*Euro-Wertpapiere*) in particular, they may not be offered by way of public promotion.

*United States of America:* The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States of America (the "United States" or the "U.S.") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, each Manager has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

In addition, under U.S. Treas. Reg. § 1.163-5(c)(2)(i)(C) (the "C Rules"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issue. Each Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with the original issue of Notes in bearer form, each Manager has represented that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either of such Manager or such purchaser is within the United States or its possessions and will not involve any of its U.S. offices in the offer or sale of Notes in bearer form. Terms used in this subparagraph have the meaning given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

*United Kingdom:* Each Manager has represented and agreed that:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Settlement Date of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (b) 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 con-

nection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) 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.

*General:* In addition to the specific restrictions set out above, each Manager has agreed that it will observe all applicable provisions of law in each jurisdiction in or from which it may offer or sell the Notes or distribute any offering material.

## **Listing Information**

Application has been made to list the Notes on the Luxembourg Stock Exchange.

Prior to the listing, a legal notice containing information regarding the issue of the Notes, the Articles of Association, the By-Laws and the constitutional documents of the Issuer and the Charter of the Guarantor will be registered and deposited with the Greffe du Tribunal d'Arrondissement de et à Luxembourg, where copies thereof may be inspected and obtained.

The most recent audited Annual Report of the Issuer and the Guarantor may be obtained free of charge at the head office of the paying agent in the City of Luxembourg, Deutsche Bank Luxembourg S.A., 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, as long as the Notes are listed on the Luxembourg Stock Exchange. The Articles of Association of the Issuer and the Charter of the Guarantor as well as copies of the Issuing and Principal Paying Agency Agreement dated 15 February 2002, may also be inspected at the aforementioned address.

If the Issuer is substituted by a substitute debtor in accordance with § 12 of the Conditions of Issue of the Notes, a supplement to this Offering Circular shall be prepared and submitted to the Luxembourg Stock Exchange for its approval.

## **Incorporation by Reference**

### *Documents incorporated by reference*

The Annual Report of the Guarantor (presented on a consolidated basis in accordance with international accounting standards) for the financial year ended 31 December 2000, is incorporated by reference into the Offering Circular. Copies thereof and of any other documents incorporated herein by reference may be obtained without charge at the head office of the Paying Agent in the City of Luxembourg. The Guarantor has not yet published any unconsolidated or consolidated interim financial statements. The Guarantor will publish its consolidated half year financial statements after the completion of the first half of its financial year 2002. The Guarantor's consolidated half year financial statements shall from thereon be incorporated by reference into this Offering Circular. The Issuer has not yet published any reports or financial statements. The Issuer will publish its first financial statements after the completion of its first financial year on 31 December 2002.

## **Paying Agents**

The Paying Agents for the Notes are Deutsche Bank Aktiengesellschaft, Corporate Trust & Agency Services, Grosse Gallusstrasse 10-14, D-60272 Frankfurt am Main, (Principal Paying Agent) and Deutsche Bank Luxembourg S.A., 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

So long as the Notes are listed on the Luxembourg Stock Exchange and the Rules of the Luxembourg Stock Exchange so require, the Issuer will maintain a Paying Agent in Luxembourg.

## **Delivery of the Notes**

Initial delivery of the Notes will be made on or about 18 February 2002, the Settlement Date, in form of a permanent global note (the "Global Note") without interest coupons which will be deposited on or around 18 February 2002 with a common depository for Euroclear Bank S.A./N.V., Brussels ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("CBL"). The Global Note will not be exchangeable for definitive Notes.

## **Availability of Documents**

Copies of the Issuing and Principal Paying Agency Agreement and the Guarantee may be inspected during normal business hours on any business day from date hereof and so long any of the Notes remain outstanding at the offices of the Paying Agent in Luxembourg.

## **Use of Proceeds**

The net proceeds of the Notes, amounting to approximately € 98.75 million, will be used for general corporate purposes of the Issuer.

## **Material Change**

Save as disclosed herein, there has been no material adverse change in the financial condition, business or operations of the Issuer since 31 January 2002 and of the Guarantor since 31 December 2000, respectively.

## **Litigation**

Neither the Issuer nor the Guarantor, nor any of their affiliates are or have been during the last two financial years involved in (whether as defendant or otherwise), or have knowledge of any threat of, any legal, arbitration, administrative or other legal proceedings the results of which may have in the event of an adverse determination, a significant effect on the financial position of the Issuer and the Guarantor, so as to potentially affect their ability to meet their obligations with respect to the Notes or the Guarantee, respectively.

## **Security Codes**

The Notes have been accepted for clearance through Euroclear and CBL.

Common Code: 014264850

ISIN: XS 0142648509

German Security Code: 841 974

---

## **Subscription and Sale**

Deutsche Bank AG London, Bank Evrofinance, Bank of Moscow, Bank Zenit (Open Joint Stock Company), Caboto IntesaBci – SIM S.p.A., Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company), JS Commercial Bank ROSBANK, Moscow Narodny Bank Limited, MPS Finance B.M.S.p.A., NKB Investments Ltd., UniCredit Banca Mobiliare S.p.A. and Westdeutsche Landesbank Girozentrale, London Branch (together the "Managers") have, under a subscription agreement dated 15 February 2002 (the "Subscription Agreement"), severally and not jointly agreed with the Issuer to subscribe for the Notes having an issue price of 99.75%. The Settlement Date for the Notes is 18 February 2002 (the "Settlement Date").

## Taxation

*The following is a general guide only, based upon the tax laws of the Grand-Duchy of Luxembourg and the Russian Federation as in effect on the date of this Offering Circular, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect and should be treated with appropriate caution. The information below is not intended as tax advice and does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of Notes.*

*Prospective purchasers of Notes who are in doubt as to their tax position on purchase, ownership or transfer of any Notes are strongly advised to consult their own tax advisers.*

### Grand-Duchy of Luxembourg

**Withholding Tax:** Under Luxembourg tax laws currently in effect there is no withholding tax for residents and non-residents on payments of principal or interest, or on accrued but unpaid interest, nor is any Luxembourg withholding tax payable on payments received upon redemption, repurchase or exchange of the Notes.

**Taxes on Income and Capital Gains:** A holder of the Notes will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of the Notes.

Holders of the Notes who are non-residents of Luxembourg and who do not hold the Notes through a permanent establishment in Luxembourg are not liable for Luxembourg income tax on (i) payments of principal or interest, (ii) accrued but unpaid interest, (iii) payments received upon redemption, repurchase or exchange of the Notes, or (iv) capital gains on sale of any Notes.

Holders of the Notes resident in Luxembourg who are fully taxable, or holders of the Notes who have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must for income tax purposes include any interest received in their taxable income. These holders will not be liable for any Luxembourg taxation on income on repayment of principal.

Individual Luxembourg resident holders of the Notes are not subject to taxation on capital gains upon the disposition of the Notes unless the disposition of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon a sale, repurchase, redemption or exchange of the Notes, individual Luxembourg resident holders must however include the portion of the sale, repurchase, redemption or exchange price corresponding to accrued but unpaid interest in their taxable income.

A corporate entity, or *société de capitaux*, which is a Luxembourg resident holder of the Notes, or a foreign entity of the same type which has a Luxembourg permanent establishment, will need to include in its taxable income the difference between the sale, repurchase, redemption or exchange price (including accrued but unpaid interest) and the lower of cost or book value of the Notes sold, repurchased, redeemed or exchanged. These holders should not be liable for any Luxembourg income tax on repayment of principal upon repurchase, redemption or exchange of the Notes.

**Other Taxes:** There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the holders of the Notes as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption or repurchase of the debt securities.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the debt securities or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

Luxembourg net wealth tax will not be levied on a holder of the Notes, unless (i) such holder is resident in Luxembourg for the purpose of the relevant legal provisions; or (ii) such Notes are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

No gift, estate or inheritance taxes is levied on the transfer upon death of a holder of the Notes in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

#### *Proposed EU Savings Directive*

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. According to the most recently available information it is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within its jurisdiction to an individual resident in that other Member State, subject to the right of certain individual Member States (including Luxembourg but not including the United Kingdom) to opt instead of a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification.

#### **Certain Aspects of Russian Taxation relevant to the Issue and the Guarantee**

Beginning 1 January 2002, interest paid by a Russian entity to a non-resident of Russia is subject to a 20% Russian withholding tax. Pursuant to the provisions of an applicable double taxation treaty the withholding tax may be reduced or eliminated. The payments of interest on a loan MMK may receive from the Issuer will not be subject to Russian withholding tax under the terms of the double taxation treaty between the Russian Federation and the Grand Duchy of Luxembourg.

Russian value added tax, or VAT, is not applicable to interest or principal of such loans.

Pursuant to the Tax Code that became effective on 1 January 2002, payments under the Guarantee to non-resident Noteholders who are not individuals should not be subject to Russian withholding tax to the extent that such payments do not represent payments of interest on the Notes. It is unclear whether payments representing interest on the Notes made by the Guarantor under the Guarantee to non-resident Noteholders who are not individuals may be characterized as Russian source income subject to withholding tax. If the Russian tax authorities took such position, those payments would be subject to 20% withholding tax at source.

It is unclear whether payments by us to individual non-resident Noteholders under the Guarantee might be characterized as Russian source income subject to withholding tax. If the Russian tax authorities took such position, some or all of the amount paid under the Guarantee to an individual non-resident holder would be subject to 30% withholding tax at source.

This tax may be able to be reduced under any applicable double taxation treaty. However, it is not certain that an advance relief will be available and obtaining a refund can be extremely difficult, if not impossible.

## Investment Considerations

*Investment in the Notes involves a high degree of risk. Potential investors should consider, in particular, the following risk factors before making a decision to invest in the Notes. The risks set forth below, as well as those identified elsewhere in the Offering Circular, could have a material adverse effect on the Guarantor and holders of the Notes.*

### Risks Relating to Russia

#### *Political and Social Risk*

In recent years, Russia has been undergoing a substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-oriented democracy. There can be no assurance that the political and economic reforms necessary to complete such transformation will continue. In its current stage of relative infancy, the Russian political system is vulnerable to the population's dissatisfaction with reform, social and ethnic unrest and changes in government policies, any of which could have a material adverse effect on the Guarantor and its ability to meet its obligations to investors under the Guarantee of the Notes.

During this transformation, legislation has been enacted to protect private property against expropriation and nationalisation. However, due to the lack of experience in enforcing these provisions in the short time they have been in effect and due to potential political changes in the future, there can be no assurance that such provisions would be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Guarantor's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on the Guarantor.

The Russian Government has experienced four changes of prime ministers since March 1998, as well as the resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin on 26 March 2000. The various government institutions and the relations between them, as well as the Russian Government's policies and the political leaders who formulate and implement them, are subject to rapid and potentially violent change. Any major changes in, or rejection of, current policies favouring political and economic reform by the Russian Government may have a material adverse effect on the Guarantor.

Russia is constituted as a federation of republics, territories, regions (one of which being an autonomous region), cities of federal importance and autonomous areas, which together comprise the Federation Subjects and all of which are equal subjects of Russia. The delineation of authority among the Federation Subjects and the federal government authorities is often uncertain and at times contested. Lack of consensus between local and regional authorities and the federal government often results in the enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus may have negative economic effects on the Guarantor, which could be material to its ability to meet its financial obligations.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions, and in certain cases, to military conflict. Russian military and paramilitary forces have been engaged in Chechnya in the past and continue to maintain their presence there. The spread of violence, or its intensification, could have significant political consequences. These include the imposition of a state of emergency in some or all of the Russian Federation. These events could materially adversely affect the investment environment in Russia.

While the Guarantor has paid full salaries on a regular and timely basis the failure of many Russian companies to do so 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. Potential labour and social unrest caused by these discrepancies may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism with restrictions on foreign involvement in the economy of Russia and increased violence, any of which could have a material adverse effect on the Guarantor.

### *Economic Risks*

Simultaneously with the enactment of political reforms, the Russian Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies and privatising state-owned enterprises, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities and foreign trade and investment.

Despite the reform policies, until 17 August 1998, the day of the outbreak of the Russian financial crisis, the Russian economy remained characterised by declining industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system, widespread tax evasion and progressive impoverishment of a large portion of the Russian population.

Additionally, in the months following the events of 17 August 1998, Russia experienced acute financial and economic distress. The Russian Government's default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the Central Bank of the Russian Federation (formerly the State Bank of the USSR's) (the "CBR") abandonment of the Rouble corridor and the temporary moratorium on certain hard-currency payments led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, the near collapse of the country's banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds in the international capital markets.

Since 1998 the Russian economy has improved in a number of areas. However, it is not possible to estimate how long the impact of the August 1998 events will be felt or to quantify the impact they may have on the Guarantor.

The prospect exists of widespread bankruptcy, mass unemployment and the collapse of certain sectors of the Russian economy. Moreover, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that Russia will remain receptive to foreign trade and investment or that the economy in Russia will improve. Any failure of the current policies of economic reform and stabilisation could have a material adverse effect on the operations of the Guarantor.

Russia's considerable external debt, a potential increase in rates of inflation or a devaluation arising from the need to resort to monetary financing of the budget deficit, could materially adversely affect the country's ability to face economic downturns.

### *Funding from International Organisations*

Russia has in the past received substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund. No assurance can be given that any such financing will be further provided to Russia. If such financial assistance is withdrawn, economic development in Russia may be adversely affected.

### *Lack of Liquidity*

Russian businesses have a limited operating history in free market conditions and have had limited experience compared with Western companies with entering into and performing contractual obligations. Russian businesses, when compared to Western businesses, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Russia has limited infrastructure to support a market system. Communications and banks and other financial systems are less well developed and less well regulated when compared to their Western counterparts.

Russia has a limited supply of domestic savings and there are few foreign sources of funds. Businesses therefore may experience difficulty in obtaining working capital facilities. These problems

were aggravated by the 1995 Russian banking crisis and by the near collapse of the Russian banking system after the events of 17 August 1998. Although the situation in the Russian banking sector has generally improved since 17 August 1998, the Russian banking system may in future encounter a liquidity crisis as well as other problems arising from businesses' under-capitalisation of the banking sector as a whole.

### *Legal Risks*

Risks associated with the Russian legal system include: (i) the untested nature of the independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) inconsistencies between and among laws, Presidential decrees and Government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on interpreting the applicable rules; (iv) a high degree of discretion on the part of governmental authorities; (v) conflicting local, regional and national rules and regulations; and (vi) the relative inexperience of judges and courts in interpreting new legal norms.

The laws in Russia regulating ownership, control and corporate governance of Russian companies are relatively new and, by and large, have not been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available and anti-fraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, several important Russian laws have only recently come into force. The nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. Therefore, no assurance can be given that the development or implementation of Russian legislation (including Government resolutions or Presidential decrees) will not have a material adverse effect on foreign investors or private investors generally.

The existing business culture in Russia continues to be influenced by attitudes formed in the period of the Soviet planned economy, when survival often depended on finding ways to avoid laws and their arbitrary application. As a result, the commitment of business people, Government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements is still uncertain. In addition, the uncertainty of the compliance by Russian companies with legal and regulatory procedures, such as those required in connection with charter amendments or transfers of securities, may in some cases call into questions the validity of actions.

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and usually are not updated or catalogued. As a result, applicable law is often difficult to ascertain and apply, even after reasonable effort. Russia does not have a judicial system based on precedents. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and Government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the offence.

### *Exchange Rates, Exchange Controls and Repatriation Restrictions*

In recent years, the Rouble has experienced a significant depreciation relative to the U.S. dollar and there has been significant instability in the Rouble exchange rate, although this instability has

recently lessened. In several days following the financial and economic distress of 17 August 1998, the value of the Rouble against the U.S. dollar fell by more than 300% before temporarily rebounding by a greater amount. Prior to August 1998, the CBR tried to support the Rouble within a certain band. However, after the significant August 1998 devaluation of the Rouble, the band was abolished. The Russian Government's and the CBR's ability to reduce the volatility of the Rouble will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency. Furthermore, uncertainties exist with respect to the continuation of the CBR's current policy.

The Rouble is not convertible outside Russia. A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. There can be no assurance that such a market will continue indefinitely. Currently, 75% of foreign currency earnings from export sales must be converted into Roubles. The recent relative stability of the exchange rate of the Rouble has mitigated risks associated with forced conversion, but no assurance can be given that such stability will continue. Moreover, the banking system in Russia is not yet as developed as its Western counterparts and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. While the current policy of the Government is to allow the repatriation by foreign investors of profits earned in Russian there are restrictions on such repatriation.

#### *Lack of Official Data Reliability*

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

#### *Judicial Considerations*

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. Judges and courts are generally inexperienced in business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. The Guarantor may be subject to such claims and may not be able to receive a fair hearing. Additionally, court decisions are not always enforced or followed by law enforcement agencies.

#### *Foreign Judgements*

Russian courts will not enforce any judgement obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing for reciprocal enforcement of court judgements, there is "de facto" enforcement in such country of judgements rendered by Russian courts or there is a provision in the law of such country that provides for enforcement of judgements of Russian courts. As of the date of this Offering Circular, there are no such treaties between Russia and Germany or Luxembourg for reciprocal enforcement of court judgements. In any case, Russian courts will not enforce any judgement obtained in a court outside Russia if the defendant was not duly summoned or represented and fundamental procedural rights were not observed, the judgement in question was rendered with respect to a matter within the exclusive jurisdiction of Russian courts, there is already a Russian court judgement or pending proceedings before the Russian court on the same subject matter between the same parties, the judgement is clearly against Russian public policy, the foreign judgement is not final or if the foreign judgement is submitted for enforcement after the expiry of a specific period established by Russian law.

### *Corporate Governance, Disclosure and Accounting Standards*

The corporate affairs of the Guarantor are governed by its Charter and by the laws governing companies incorporated in Russia. The rights of stakeholders and the responsibilities of members of the Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom, Russia and other countries is to promote full and fair disclosure of all material corporate information to the public. The Guarantor is subject to Russian law requirements which require, in particular, the Guarantor to publish annual financial statements, together with an independent auditor's report. However, there is less publicly available or other information about the Guarantor than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other countries.

### **Risks relating to the Guarantor**

There are a number of risks which may dent MMK's business results and affect its ability to pay under the guarantee described herein (the "Guarantee").

#### *International market risks*

Developments in the international steel market have an impact on MMK's overseas sales. Although MMK managed to re-establish a strong position in Southeast Asia it is struggling to maintain good business in the U.S., Canadian, Italian and other European markets. As long as the economic downturn and the weak situation in the steel markets prevails, it will impact MMK's business.

The existing trade restrictions in the U.S. and EU-markets make certain status improvements necessary, such as Russia's admission to WTO and the assignment to Russia of the status of a market economy, in order to strengthen MMK's international position.

#### *National risks relating to the Guarantor*

If the anticipated sustained growth of the Russian economy fails to materialise, it would have serious consequences for the steel producing companies.

A longer-term decline in international oil prices may lead to alterations to the oil companies' investment plans, reducing the demand for pipes.

However, assuming sustained economic growth in Russia, MMK may suffer a backlash if the domestic economy and the corporates do not restructure fast enough and do not need its higher quality and value-added products.

While the supply situation looks comfortable at present, possible supplier alliances could represent a threat to MMK with respect to pricing. Also the price policy pursued by the so-called natural monopolies, especially the railways and gas supply, are a potential threat to MMK's profitability.

#### *CBR Licence*

As a matter of Russian law, payments under the Guarantee by the Guarantor are subject to the licencing by the Central Bank of the Russian Federation (the "Central Bank"). The issue of the CBR licence authorising payments under the Guarantee (the "Licence") may take up to 60 days and is subject to the satisfaction of certain conditions by the Guarantor. Although as of the date of this Offering Circular the Guarantor has formally applied for the Licence, it is still pending and no assurance can be given that it would be granted by the Central Bank. Should the Guarantor fail to obtain the Licence, the Guarantor may not be able to make payments in foreign exchange under the Guarantee as such payment would violate Russian exchange control legislation.

**CONSIDERING ALL OF THE ABOVE THE NOTES ARE SUITABLE ONLY FOR SPECULATIVE INVESTORS WHO ARE IN A POSITION TO ASSESS AND BEAR SPECIAL RISKS.**

MMK FINANCE S. A.  
€ 100.000.000 10 % Anleihe von 2002/2005

The German wording of the Conditions of Issue is legally binding; the English text is a non-binding translation

MMK FINANCE S. A.  
€ 100,000,000 10 % Notes of 2002/2005

## ANLEIHEBEDINGUNGEN

## CONDITIONS OF ISSUE

### § 1 (Form und Nennbetrag)

### § 1 (Form and Denomination)

(1) Die Anleihe im Gesamtnennbetrag von

(1) The Notes shall be issued in the aggregate principal amount of

€ 100.000.000,-  
(einhundert Millionen Euro)

€ 100,000,000.-  
(Euro one hundred million)

ist verbrieft in 100.000 unter sich gleichberechtigte, auf den Inhaber lautende Schuldverschreibungen zu je € 1.000,- (die „**Schuldverschreibungen**“ oder die „**Anleihe**“).

subdivided into 100,000 Notes in the principal amount of € 1,000.- each payable to bearer and ranking *pari passu* with each other (the „**Notes**“ or the „**Issue**“).

(2) Die Schuldverschreibungen samt Zinsansprüchen sind in einer Global-Inhaberschuldverschreibung (die „**Globalurkunde**“) verbrieft, die bei einer gemeinsamen Verwahrstelle für Clearstream Banking, société anonyme, Luxemburg, („**CBL**“) und Euroclear Bank S.A./N.V., Brüssel, („**Euroclear**“), (jeweils ein „**Clearing System**“ bezeichnet) am Begebungstag hinterlegt worden ist. Die Globalurkunde trägt die eigenhändige Unterschrift von zwei Geschäftsführern der MMK FINANCE S.A., Luxemburg, (die „**Emittentin**“) sowie die eigenhändige Unterschrift eines Kontrollbeauftragten. Effektive Schuldverschreibungen oder Zinsscheine werden nicht ausgegeben.

(2) The Notes, including the right to demand payment of interest shall be represented by a global note (the „**Global Note**“) which has been deposited with Clearstream Banking, société anonyme, Luxembourg („**CBL**“) and Euroclear Bank S.A./N.V., Brussels, („**Euroclear**“) (each a „**Clearing System**“) on the issue date. The Global Note bears the handwritten signature of two directors of MMK FINANCE S.A., Luxembourg, (the „**Issuer**“) and the handwritten signature of a control officer. No definitive Notes or interest coupons will be issued.

### § 2 (Verzinsung)

### § 2 (Interest)

(1) Die Schuldverschreibungen werden vom 18. Februar 2002 an mit jährlich 10% verzinst. Die Zinsen sind jährlich nachträglich am 18. Februar eines jeden Jahres zahlbar; die erste Zinszahlung ist am 18. Februar 2003 fällig.

(1) The Notes shall bear interest as from 18 February 2002 at the rate of 10% per annum. Interest shall be payable annually in arrear on 18 February of each year, with the first such payment being due on 18 February 2003.

(2) Der Zinslauf der Schuldverschreibungen endet mit Ablauf des dem Fälligkeitstag (wie nachstehend in § 3 definiert) vorangehenden Tages. Sofern die Emittentin die Tilgung der Schuldverschreibungen bei Fälligkeit unterläßt, endet der Zinslauf nicht am Fälligkeitstag, sondern mit Ablauf des Tages, der dem Tag der tatsächlichen Rückzahlung des Kapitals der Schuldverschreibungen vorangeht.

(2) The Notes shall cease to bear interest as of the end of the day preceding the Maturity Date (as defined in § 3). Should the Issuer fail to redeem the Notes when due, interest shall continue to accrue beyond the Maturity Date until the end of the day preceding the day of the actual repayment of principal of the Notes.

(3) Wenn es erforderlich ist, Zinsen für einen Zeitraum von weniger als einem Jahr zu berechnen, erfolgt die Berechnung auf der Grundlage der tatsächlich verstrichenen Tage geteilt durch die tatsächliche Anzahl der Tage (365 bzw. 366) im jeweiligen Zinsjahr.

(3) If it is necessary to calculate interest for a period of less than a full year, interest shall be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the respective annual interest period.

### § 3 (Rückzahlung)

### § 3 (Redemption)

(1) Die Schuldverschreibungen werden am 18. Februar 2005 („**Fälligkeitstag**“) zum Nennbetrag zurückgezahlt.

(1) The Notes will be redeemed at par on 18 February 2005 (the „**Maturity Date**“).

(2) Die Emittentin und die Garantin (wie in § 8 definiert) sind jederzeit berechtigt, Schuldverschreibungen im Markt oder auf andere Weise zu erwerben.

(2) The Issuer and the Guarantor (as defined in § 8) are entitled to purchase Notes in the market or otherwise.

#### § 4

##### (Zahlungen, Bankarbeitstag)

(1) Zahlungen von Zinsen und Kapital auf die Schuldverschreibungen erfolgen bei der Deutsche Bank Aktiengesellschaft („**Hauptzahlstelle**“), Frankfurt am Main, oder bei der Deutsche Bank Luxembourg S.A., Luxemburg. Die Hauptzahlstelle wird die zu zahlenden Beträge an das Clearing System oder dessen Order zur Weiterleitung an die Gläubiger der durch die Globalurkunde verbrieften Schuldverschreibungen („**Anleihegläubiger**“) überweisen. Zahlungen an ein Clearing System oder an dessen Order befreien die Emittentin in Höhe der geleisteten Zahlungen von Ihren Verbindlichkeiten aus den Schuldverschreibungen.

(2) Fällt der Fälligkeitstag für eine Zahlung auf einen Tag, der kein Bankarbeitstag (wie nachfolgend definiert) ist, so wird die betreffende Zahlung erst am nächstfolgenden Bankarbeitstag geleistet, ohne daß wegen dieser Zahlungsverzögerung zusätzliche Zinsen gezahlt werden. „**Bankarbeitstag**“ in diesen Anleihebedingungen bedeutet jeder Tag (außer einem Samstag oder Sonntag), an dem das Clearing System und das Trans-European Automated Realtime Gross Settlement Express Transfer (TARGET) System betriebsbereit sind.

(3) Die Emittentin kann weitere Zahlstellen ernennen und die Ernennung von Zahlstellen widerrufen, vorausgesetzt daß, solange die Schuldverschreibungen an einer oder mehreren Börsen notiert sind, und deren Vorschriften dies erfordern, immer eine Zahlstelle in der Stadt besteht, in welcher sich die entsprechende Börse befindet. Eine solche Ernennung oder ein solcher Widerruf ist gemäß § 10 zu veröffentlichen.

#### § 5

##### (Steuern, Rückzahlung aus Steuergründen)

(1) Kapital und Zinsen werden ohne Abzug oder Einbehalt gegenwärtiger oder zukünftiger Steuern, Abgaben oder amtlicher Gebühren gleich welcher Art gezahlt, die von oder in dem Großherzogtum Luxemburg oder für dessen Rechnung oder von oder für Rechnung einer dort zur Steuererhebung ermächtigten Gebietskörperschaft oder Behörde auferlegt, erhoben oder eingezogen werden (nachstehend zusammen „**Quellensteuern**“ genannt), es sei denn, ein solcher Abzug oder Einbehalt ist gesetzlich vorgeschrieben. In diesem letzteren Fall wird die Emittentin die zusätzlichen Beträge an Kapital und Zinsen zahlen, die erforderlich sind, damit der den Anleihegläubigern nach diesem Abzug oder Einbehalt zufließende Nettobetrag jeweils den Beträgen an Kapital und Zinsen entspricht, die ihm zustehen würden, wenn der Abzug oder Einbehalt nicht erforderlich wäre. Solche zusätzlichen Beträge sind jedoch nicht zahlbar wegen Steuern, Abgaben oder amtlicher Gebühren, die

- a) aufgrund gegenwärtiger oder früherer persönlicher oder geschäftlicher Beziehungen der Anleihegläubiger zu dem Großherzogtum Luxemburg zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die Schuldverschreibungen aus Quellen in dem Großherzogtum Luxemburg stammen oder für Zwecke der Besteuerung so behandelt werden oder dort besichert sind; oder
- b) aufgrund (i) einer Richtlinie oder Verordnung der Europäischen Union betreffend die Besteuerung von Zinserträgen oder (ii) einer zwischenstaatlichen Vereinbarung über deren Besteuerung, an der das Großherzogtum Luxemburg oder die Europäische Union beteiligt ist, oder (iii) einer gesetzlichen Vorschrift, die diese Richtlinie, Verordnung oder Vereinbarung umsetzt oder befolgt, abzuziehen oder einzubehalten sind.

#### § 4

##### (Payments, Business Day)

(1) Payment of principal and interest on the Notes shall be made to Deutsche Bank Aktiengesellschaft (“**Principal Paying Agent**“), Frankfurt am Main, or at Deutsche Bank Luxembourg S.A. in Luxembourg. The Principal Paying Agent will transfer the amounts payable to the Clearing System or its order for credit to the person holding Notes represented by the Global Note (“**Noteholder**“). All payments made to a Clearing System or to its order shall discharge the liability of the Issuer under the Notes to the extent of the sums so paid.

(2) If any payment falls due on a day, which is not a Business Day (as defined below), it shall be postponed to the next day, which is a Business Day and no further interest shall be paid in respect of the delay in such payment. In these Conditions of Issue, “**Business Day**” means a day (other than a Saturday or Sunday) on which the Clearing System and the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System are operating.

(3) The Issuer may appoint additional paying agents and revoke the appointment of paying agents, provided that as long as the Notes are listed on one stock exchange or several stock exchanges and the rules thereof so require there shall at all times be a paying agent in the city in which the respective stock exchange are located. Such appointment or revocation shall be published in accordance with § 10.

#### § 5

##### (Taxes, Redemption for Tax Reasons)

(1) Principal and interest shall be payable without deduction or withholding for or on account of any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or in or on behalf of the Grand-Duchy of Luxembourg or by or on behalf of any political subdivision or authority therein having power to tax (hereinafter together called “**Withholding Taxes**“), unless such deduction or withholding is required by law. In such event, the Issuer shall pay such additional amounts of principal and interest as may be necessary in order that the net amounts received by the Noteholder after such deduction or withholding shall equal the respective amounts of principal and interest which would have been receivable had no such deduction or withholding been required. No such additional amounts shall, however, be payable on account of any taxes, duties or governmental charges which

- a) by reason of the Noteholders having, or having had, some personal or business connection with the Grand-Duchy of Luxembourg and not merely by reason of the fact that payments in respect of the Notes are, or for purposes of taxation are deemed to be, derived from sources in, or are secured in the Grand-Duchy of Luxembourg; or
- b) are deducted or withheld pursuant to (i) any European Union Directive or Regulation concerning the taxation of interest income, or (ii) any international treaty or understanding relating to such taxation and to which the Grand-Duchy of Luxembourg or the European Union is a party, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such Directive, Regulation, treaty or understanding.

(2) Falls infolge einer am oder nach dem 14. Januar 2002 wirksam werdenden Änderung oder Ergänzung der in dem Großherzogtum Luxemburg geltenden Rechtsvorschriften oder einer vor diesem Zeitpunkt nicht allgemein bekannten Anwendung oder amtlichen Auslegung solcher Rechtsvorschriften Quellensteuern auf die Zahlung von Kapital oder Zinsen der Schuldverschreibungen anfallen oder anfallen werden, diese Quellensteuern wegen der Verpflichtung zur Zahlung zusätzlicher Beträge gemäß Absatz (1) der Emittentin zur Last fallen und die Emittentin das Anfallen der Quellensteuer nicht durch ihr mögliche zumutbare Maßnahmen (und zwar andere als eine Ersetzung der Emittentin gemäß § 12) vermeiden kann, so ist die Emittentin berechtigt, alle ausstehenden Schuldverschreibungen, jedoch nicht nur einen Teil von ihnen, unter Einhaltung einer Kündigungsfrist von mindestens 30 Tagen jederzeit zum Nennbetrag zuzüglich bis zum Tilgungstag aufgelaufener Zinsen zu tilgen. Eine solche Kündigung darf jedoch nicht früher als 90 Tage vor dem Zeitpunkt erfolgen, an dem die Emittentin erstmals Quellensteuern einbehalten oder zahlen müsste, falls eine Zahlung in bezug auf die Schuldverschreibungen dann geleistet würde.

(3) Die Kündigung erfolgt durch Bekanntmachung gemäß § 10. Sie ist unwiderruflich und muß den Tilgungstag sowie in zusammenfassender Form die Tatsachen angeben, die das Kündigungsrecht begründen; ferner muß sie die Erklärung enthalten, daß die Emittentin das Anfallen der Quellensteuer nicht durch ihr mögliche zumutbare Maßnahmen (und zwar andere als eine Ersetzung der Emittentin gemäß § 12) vermeiden kann.

(4) Bezugnahmen in diesen Anleihebedingungen auf aus den Schuldverschreibungen zahlbare Beträge schließen auch zusätzliche Beträge ein, welche gemäß diesem § 5 zu zahlen sind.

(5) Für den Fall einer Sitzverlegung der Emittentin in ein anderes Land, Territorium oder Hoheitsgebiet gelten die vorstehenden Bestimmungen mit der Maßgabe, daß sich jede Nennung des Großherzogtums Luxemburg als auf dieses andere Land, Territorium oder Hoheitsgebiet bezogen versteht.

(6) Falls die Garantin Zahlungen leistet, gelten dafür aufgrund der Garantie die vorstehenden Absätze (1) und (5) entsprechend mit der Maßgabe, daß sie sich außer auf Steuern, Abgaben und Gebühren des Großherzogtums Luxemburg auch auf solche der Russischen Föderation beziehen.

#### **§ 6 (Status)**

Die Schuldverschreibungen stellen nicht besicherte und nicht nachrangige Verbindlichkeiten der Emittentin dar und stehen im gleichen Rang mit allen anderen nicht besicherten und nicht nachrangigen derzeitigen und zukünftigen Verbindlichkeiten der Emittentin.

#### **§ 7 (Negativverpflichtung der Emittentin)**

Solange Schuldverschreibungen ausstehen, wird die Emittentin weder ihr gegenwärtiges noch ihr zukünftiges Vermögen ganz oder teilweise mit irgendeinem Sicherungsrecht (wie nachstehend definiert) zum Zwecke der Besicherung anderer Schuldverschreibungen oder sonstiger Schuldverbindlichkeiten aus aufgenommenen Geldern mit einer ursprünglichen Laufzeit von mehr als einem Jahr, seien es solche der Emittentin oder eines Dritten, oder zur Besicherung einer Garantie oder sonstigen

(2) If, as a result of any change in, or amendment to, the laws or regulations prevailing in the Grand-Duchy of Luxembourg, which change or amendment becomes effective on or after 14 January 2002 or as a result of any application or official interpretation of such laws or regulations not generally known before that date, Withholding Taxes are or will be leviable on payments of principal or interest in respect of the Notes, by reason of the obligation to pay additional amounts as provided in subparagraph (1), such Withholding Taxes are to be borne by the Issuer and this cannot be avoided by the Issuer taking reasonable measures available to it (other than the substitution of the Issuer according to § 12 of the Conditions of Issue), the Issuer may redeem the Notes in whole, but not in part, at any time, on giving not less than 30 days' notice, at the principal amount thereof, together with interest accrued to the date fixed for redemption. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to withhold or pay Withholding Taxes if a payment in respect of the Notes shall then be made.

(3) Any such notice shall be given by publication in accordance with § 10. It shall be irrevocable, must specify the date fixed for redemption and must set forth a statement in summary form of the facts constituting the basis for the right of the Issuer so to redeem and shall include a statement to the effect that the Issuer, in its business judgement, cannot avoid the charge of such Withholding Taxes by the use of reasonable measures available to it (other than the substitution of the Issuer according to § 12).

(4) Any reference in these Conditions of Issue to any amounts in respect of the Notes shall be deemed also to include any additional amounts which may be payable under this § 5.

(5) In the case of a transfer of the Issuer's domicile to another country, territory or jurisdiction, the preceding provisions shall apply with the understanding that any reference to the Grand-Duchy of Luxembourg shall from then on be deemed to refer to such other country, territory or jurisdiction.

(6) In the event that the Guarantor makes any payments, the above subparagraphs (1) and (5) shall pursuant to the provisions of the Guarantee apply *mutatis mutandis* to any such payments, in such a manner that they refer also to taxes, duties and charges of the Russian Federation in addition to those of the Grand-Duchy of Luxembourg.

#### **§ 6 (Status)**

The Notes constitute unsecured and unsubordinated obligations of the Issuer and rank *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future.

#### **§ 7 (Negative Pledge of the Issuer)**

So long as any Note remains outstanding, the Issuer shall not create or permit to subsist any Security Interest (as defined below) in any or all of its present or future assets to secure any other notes or obligations of the Issuer or a third party for borrowed moneys with an initial maturity of more than one year or to secure any guarantee or other warranties in respect thereof of the Issuer or a third party without at the same time, or prior thereto, securing the Notes equally and rateably therewith. "Security Interest"

Gewährleistung der Emittentin oder eines Dritten für solche Schuldverschreibungen oder Schuldverbindlichkeiten belasten oder ein solches Sicherungsrecht zu diesem Zweck bestehen lassen, ohne die Anleihegläubiger zumindest gleichzeitig an demselben Sicherungsrecht im gleichen Rang und im gleichen Verhältnis teilnehmen zu lassen. „Sicherungsrecht“ bedeutet jedes dingliche Recht oder Zurückbehaltungsrecht. Satz 1 gilt nicht für Sicherungsrechte an einem Vermögensgegenstand, die zur Besicherung des Kaufpreises für diesen Vermögensgegenstand zugunsten des Verkäufers bestellt werden.

#### § 8

##### (Garantie und sonstige Verpflichtungen der Garantin)

(1) Open Joint Stock Company Magnitogorsk Iron and Steel Works (die „**Garantin**“) hat ihre unbedingte und unwiderrufliche Garantie (die „**Garantie**“) für die ordnungsgemäße Zahlung der Beträge, die Kapital und Zinsen der Anleihe entsprechen, übernommen. Die Garantie stellt eine nicht besicherte und nicht nachrangige Verbindlichkeit der Garantin dar und steht im gleichen Rang mit allen anderen nicht besicherten und nicht nachrangigen derzeitigen und zukünftigen Verbindlichkeiten der Garantin.

(2) Die Garantin hat sich in der Garantie verpflichtet sicherzustellen, solange Schuldverschreibungen ausstehen, daß weder sie selbst noch eine Tochtergesellschaft (wie in § 9 (1) der Anleihebedingungen definiert) ihr gegenwärtiges oder zukünftiges Vermögen ganz oder teilweise mit irgendeinem Sicherungsrecht (wie nachstehend definiert) zum Zwecke der Besicherung von anderen Schuldverschreibungen oder sonstigen Schuldverbindlichkeiten aus aufgenommenen Geldern mit einer ursprünglichen Laufzeit von mehr als einem Jahr, seien es solche der Garantin, der Tochtergesellschaft oder eines Dritten, oder zur Besicherung einer Garantie oder sonstigen Gewährleistung der Garantin, der Tochtergesellschaft oder eines Dritten für solche Schuldverschreibungen oder Schuldverbindlichkeiten belasten wird, ohne die Anleihe gleichzeitig oder vorher an demselben Sicherungsrecht im gleichen Rang und im gleichen Verhältnis teilnehmen zu lassen oder für die Anleihe eine nach Ansicht einer unabhängigen, internationalen Wirtschaftsprüfungsgesellschaft für die Anleihegläubiger nicht weniger günstige Sicherheit zu bestellen. „Sicherungsrecht“ bedeutet jedes dingliche Recht oder Zurückbehaltungsrecht. Satz 1 findet keine Anwendung auf

- (i) Sicherungsrechte an einem Vermögensgegenstand, die zur Besicherung der Finanzierung des Erwerbs, der Reparatur oder der Errichtung des Vermögensgegenstandes bestellt werden,
  - (ii) jede Verlängerung, Erneuerung oder Ersetzung eines vorstehend unter (i) beschriebenen Sicherungsrechtes,
  - (iii) jedes andere Sicherungsrecht, außer den vorstehend beschriebenen, vorausgesetzt, unmittelbar nach der Bestellung des Sicherungsrechtes liegt der Gesamtbetrag der von der Garantin besicherten Verbindlichkeiten nicht höher als 10% des gesamten Vermögens der Garantin, jeweils ausweislich ihrer jeweils letzten halbjährlichen konsolidierten Bilanz, die in Übereinstimmung mit der *International Accounting Standard* („IAS“) oder *Generally Accepted Accounting Principles in the United States* („US-GAAP“) erstellt und im Fall der jährlichen konsolidierten Bilanz geprüft wurde.
- (3) In der Garantie hat sich die Garantin weiterhin verpflichtet, solange Schuldverschreibungen ausstehen
- a) sicherzustellen, daß die Höhe der Gesamtverschuldung, berechnet als Prozentanteil an der Kapitalisierung, nicht mehr als 50% an jedem Berechnungstag beträgt;
  - b) sicherzustellen, daß innerhalb von 150 Tagen nach jedem Berechnungstag bei der Hauptzahlstelle ein

means any Security Interest upon property or any lien. § 7 sentence one does not apply to Security Interests upon assets to secure their purchase price for the benefit of the seller of such assets.

#### § 8

##### (Guarantee and other Undertakings of the Guarantor)

(1) Open Joint Stock Company Magnitogorsk Iron and Steel Works (the „**Guarantor**“) has given its unconditional and irrevocable guarantee (the „**Guarantee**“) for the due payment of the amounts corresponding to the principal amount of and interest on the Notes. The Guarantee constitutes an unsecured and unsubordinated obligation of the Guarantor ranking *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future.

(2) The Guarantor has guaranteed that so long as any Note remains outstanding, the Guarantor shall not, and shall procure that no subsidiary (as defined in § 9 (1) of the Conditions of Issue), create any Security Interest (as defined below) in any or all of its present or future assets to secure any other notes or indebtedness of the Guarantor, its subsidiary or a third party for borrowed moneys with an initial maturity of more than one year or to secure any guarantee or other warranties in respect thereof of the Guarantor, its subsidiary or a third party without at the same time, or prior thereto, securing the Notes equally and rateably therewith or providing such other security for the Notes as is determined by an independent accounting firm of international standing as being not less beneficial to the Noteholders. „Security Interest“ means any Security Interest upon property or any lien. The first sentence of this paragraph shall not apply in the case of:

- (i) any Security Interest on any property securing the debt incurred for the purposes of financing all or part of the cost of acquiring, repairing or constructing such property;
  - (ii) any extensions of the validity, or any renewals or replacements of any Security Interest described in (i) above;
  - (iii) any Security Interest other than those described above, provided that immediately after giving effect to such Security Interest, all of the Guarantor's secured debt in the aggregate do not exceed 10% of the Guarantor's total assets, in each case as determined in the Guarantor's most recent semi-annual consolidated balance sheet prepared and, in the case of the annual consolidated balance sheet audited in accordance with International Accounting Standards (IAS) or Generally Accepted Accounting Principles in the United States of America (US-GAAP).
- (3) The Guarantor has further undertaken to procure, so long as any of the Notes remain outstanding, that
- a) the amount of Total Debt as a percentage of Capitalisation shall not exceed 50% on each Calculation Date,
  - b) a Compliance Certificate will be deposited with Principal Paying Agent not later than 150 days after each

Bestätigungsvermerk hinterlegt wird, der von den Anleihegläubigern zu den üblichen Geschäftszeiten eingesehen werden kann.

Die Begriffe „Berechnungstag“, „Kapitalisierung“, „Bestätigungsvermerk“ und „Gesamtverschuldung“ sind in der Garantie definiert.

#### **§ 9 (Kündigungsgründe)**

(1) Jeder Anleihegläubiger ist berechtigt, seine Schuldverschreibungen zu kündigen und deren sofortige Tilgung zum Nennbetrag zuzüglich aufgelaufener Zinsen zu verlangen, falls

- a) die Emittentin Kapital und Zinsen nicht innerhalb von 15 Tagen nach Fälligkeit zahlt, oder
- b) die Emittentin die ordnungsgemäße Erfüllung irgendeiner anderen Verpflichtung aus den Schuldverschreibungen unterläßt und die Unterlassung länger als 15 Tage fort dauert, nachdem die Hauptzahlstelle hierüber eine Benachrichtigung von einem Anleihegläubiger erhalten hat, oder
- c) die Garantin die ordnungsgemäße Erfüllung irgendeiner Verpflichtung aus der Garantie unterläßt und die Unterlassung länger als 15 Tage fort dauert, nachdem die Hauptzahlstelle hierüber eine Benachrichtigung von einem Anleihegläubiger erhalten hat, oder
- d) die Emittentin oder die Garantin eine Zahlungsverpflichtung aus anderen Kreditaufnahmen (wie nachstehend definiert) oder aus einer Garantie oder Gewährleistung für eine solche Zahlungsverpflichtung Dritter bei Fälligkeit nicht erfüllt und diese Nichterfüllung länger als 15 Tage fort dauert, nachdem die Hauptzahlstelle hierüber von einem Anleihegläubiger eine Benachrichtigung erhalten hat, oder eine solche Zahlungsverpflichtung der Emittentin oder der Garantin infolge des Vorliegens eines Kündigungsgrundes vorzeitig fällig wird, und die Emittentin oder die Garantin eine solche Zahlungsverpflichtung nicht erfüllt und diese Nichterfüllung länger als 15 Tage nachdem die Hauptzahlstelle von dieser Nichterfüllung von einem Anleihegläubiger benachrichtigt wurde, andauert, oder
- e) die Emittentin, die Garantin oder eine Tochtergesellschaft ihre Zahlungen einstellt oder ihre Zahlungsunfähigkeit allgemein bekannt gibt, oder
- f) ein Gericht ein Insolvenzverfahren, ein Konkursverfahren oder ein Schuldenmoratorium gegen die Emittentin, die Garantin oder eine Tochtergesellschaft eröffnet, ein solches Verfahren eingeleitet und nicht innerhalb von 30 Tagen aufgehoben oder ausgesetzt worden ist, oder die Emittentin, die Garantin oder eine Tochtergesellschaft ein solches Verfahren beantragt oder einleitet oder eine allgemeine Schuldenregelung zugunsten ihrer Gläubiger anbietet oder trifft, oder
- g) die Emittentin oder die Garantin in Liquidation tritt, es sei denn, dies geschieht im Zusammenhang mit einer Verschmelzung oder einer anderen Form des Zusammenschlusses mit einer anderen Gesellschaft oder im Zusammenhang mit einer Umwandlung und die andere oder neue Gesellschaft übernimmt alle Verpflichtungen, die die Emittentin oder die Garantin im Zusammenhang mit dieser Anleihe eingegangen ist, oder
- h) eine Person oder mehrere Personen gemeinschaftlich entweder (i) die Kontrolle über die Garantin erwerben oder (ii) direkt oder indirekt, eigenes oder treuhänderisches Eigentum über insgesamt mehr als 50% der stimmberechtigten Aktien der Garantin erwerben, vorausgesetzt daß im Fall von (i) die Person oder Personen nicht bereits am Begebungstag der Schuldverschreibung

Calculation Date and such Compliance Certificate may be inspected during the usual business hours by the Noteholders.

The terms "Calculation Date", "Capitalisation", "Compliance Certificate" and "Total Debt" are defined in the Guarantee.

#### **§ 9 (Events of Default)**

(1) Each Noteholder shall be entitled to declare his Notes due and demand immediate redemption thereof at their aggregate principal amount plus accrued interest in the event that:

- a) the Issuer fails to pay principal and interest within 15 days from the relevant due date; or
- b) the Issuer fails to duly perform any other material obligation arising from the Notes and such failure continues unremedied for more than 15 days after the Principal Paying Agent has received notice thereof from a Noteholder; or
- c) the Guarantor fails to duly perform any obligation arising from the Guarantee and such failure continues unremedied for more than 15 days after the Principal Paying Agent has received notice thereof from a Noteholder; or
- d) the Issuer or the Guarantor fails to fulfil any payment obligation, when due, arising from any other Borrowing Obligation (as defined below) or from any guarantee or indemnity for a Borrowing Obligation on the part of a third party and such default continues for more than 15 days after notice of such default is given to Principal Paying Agent by a Noteholder, or any such payment obligation becomes due prematurely by reason of any default of the Issuer or the Guarantor, and the Issuer or the Guarantor fails to fulfil such payment obligation and such default continues for more than 15 days after notice of such default is given to Principal Paying Agent by a Noteholder; or
- e) the Issuer, the Guarantor or any subsidiary ceases its payments or announces its inability to meet its financial obligations generally; or
- f) a court opens insolvency proceedings, including bankruptcy and a moratorium of payments against the Issuer, the Guarantor or any subsidiary, such proceedings are instituted and have not been discharged or stayed within 30 days, or the Issuer, the Guarantor or any subsidiary applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally, or
- g) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger or other form of combination with another company or in connection with a reorganisation and such other or new company assumes all obligations contracted by the Issuer or the Guarantor, in connection with this Issue; or
- h) any Person or Persons acting in concert acquires or acquire (i) Control of the Guarantor or (ii) direct or indirect legal or beneficial ownership of, in aggregate, more than 50% of the voting shares of the Guarantor, provided that in case of (i) such Person or Persons does not or do not have Control of the Guarantor at the date of the issuance of the Notes; or the Guarantor

gen die Kontrolle über die Garantin ausgeübt haben oder die Garantin mit einer anderen Person verschmolzen wird, falls durch die Verschmelzung die andere Person oder anderen Personen Kontrolle über die Garantin oder die nachfolgende Gesellschaft erwerben.

Im Sinne dieser Anleihebedingungen bedeutet

**„Kreditaufnahme“** jede Verbindlichkeit aufgrund anderer Schuldverschreibungen, Darlehen oder sonstigen Geldaufnahmen in einem Betrag von mindestens € 5.000.000.– oder dem entsprechenden Gegenwert in anderen Währungen;

**„Kontrolle“** das Recht (i) die Mehrheit der Stimmrechte in der Hauptversammlung direkt oder indirekt, durch einen Stimmrechtsbindungsvertrag mit anderen in der Hauptversammlung stimmberechtigten Parteien, auszuüben, oder (ii) entweder selbständig oder zusammen mit anderen stimmberechtigten Parteien, in einer Versammlung, in der alle Parteien berechtigt sind, ihre Stimmrechte auszuüben, mehr als die Hälfte der Vorstandsmitglieder der Garantin zu ernennen oder abzusetzen;

**„Person“** eine natürliche Person, ein Unternehmen, eine Gesellschaft, einen Betrieb, eine Partnerschaft, ein Joint Venture, eine Vereinigung, eine Organisation, eine Treuhandgesellschaft, einen Staat oder eine Behörde unabhängig davon, ob sie eine eigenständige Rechtspersönlichkeit darstellt, jedoch nicht ein Tochterunternehmen der Garantin, dessen direkte oder indirekte Eigentümerin die Garantin ganz oder mehrheitlich ist;

**„Tochtergesellschaft“** ein im Mehrheitsbesitz der Garantin stehendes Unternehmen im Sinne von § 16 des Aktiengesetzes.

Das Kündigungsrecht erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

(2) Eine Benachrichtigung oder Kündigung gemäß Absatz (1) hat in der Weise zu erfolgen, daß der Deutsche Bank Aktiengesellschaft eine entsprechende schriftliche Erklärung übergeben oder durch eingeschriebenen Brief übermittelt wird.

(3) In den Fällen gemäß Absatz (1) b) und/oder d) wird eine Kündigung, sofern nicht bei deren Eingang zugleich einer der in Absatz (1) a), c) und e) bis g) bezeichneten Kündigungsgründe vorliegt, erst wirksam, wenn bei der Hauptzahlstelle Kündigungserklärungen von Anleihegläubigern im Gesamtnennbetrag von € 10.000.000 oder (falls dies weniger ist als € 10.000.000) von mindestens einem Zehntel, gemessen am Nennbetrag der dann ausstehenden Schuldverschreibungen, eingegangen sind

#### **§ 10 (Bekanntmachungen)**

Alle die Schuldverschreibungen betreffenden Bekanntmachungen werden jeweils in einer Tageszeitung mit allgemeiner Verbreitung in Luxemburg, voraussichtlich dem *Luxemburger Wort*, veröffentlicht.

#### **§ 11 (Begebung weiterer Schuldverschreibungen)**

Die Emittentin behält sich vor, von Zeit zu Zeit ohne Zustimmung der Anleihegläubiger weitere Schuldverschreibungen mit gleicher Ausstattung zu begeben in der Weise, daß sie mit diesen Schuldverschreibungen zusammengefaßt werden, eine einheitliche Anleihe mit ihnen bilden und ihren Gesamtnennbetrag erhöhen. Der Begriff **„Schuldverschreibungen“** umfaßt im Falle einer solchen Erhöhung auch solche zusätzlich begebenen Schuldverschreibungen.

merges with any other Person, if the merger results in the other Person or Persons acquiring Control of the Guarantor or the successor entity.

For the purposes of these Conditions of Issue

**“Borrowing Obligation”** means any indebtedness resulting from the bonds, notes or other debt instruments or any other loan indebtedness of an amount of at least € 5,000,000.– or the respective equivalent in other currencies.

**“Control”** means the power (i) to control a majority of the voting rights in a general meeting of shareholders, either directly or indirectly, by means of a voting agreement with other parties entitled to vote thereat, or (ii) to appoint or dismiss more than half of the managing directors of the Guarantor, either independently or together with other parties entitled to vote, in a meeting where all parties are entitled to exercise their voting rights.

**“Person”** means any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state, in each case whether or not being a separate legal entity but it does not include the subsidiaries of the Guarantor that are wholly or majority owned, directly or indirectly, by it. No change of Control of the Guarantor shall occur if an entity in the Control of a Person acquires shares from such Person or another entity in the Control of such Person

**“Subsidiary”** means in accordance with § 16 Aktiengesetz (German Stock Corporation Act) an enterprise, of which the majority of its shares is held by the Guarantor.

The right to declare Notes due shall terminate if the situation giving rise to it has been cured before the right is exercised.

(2) Any notice, including any notice declaring Notes due, in accordance with subparagraph (1) shall be made by means of a written declaration delivered by hand or registered mail to the Principal Paying Agent.

(3) In the events specified in subparagraph (1) b) and/or d) any notice declaring Notes due shall, unless at the time such notice is received, any of the events specified in subparagraph (1) a), c) and e) through g) entitling Noteholders to declare their Notes due has occurred, become effective only when Principal Paying Agent has received such notices from Noteholders of at least € 10,000,000.– in principal amount or (if this is less than € 10,000,000.–) one-tenth in principal amount of the Notes then outstanding.

#### **§ 10 (Notices)**

All notices concerning the Notes shall be published in a leading daily newspaper having general circulation in Luxembourg. This newspaper is expected to be the *Luxemburger Wort*.

#### **§ 11 (Further Issues)**

The Issuer reserves the right from time to time without the consent of the Noteholders to create and issue further Notes with identical terms, so that the same shall be consolidated, form a single issue with and increase the aggregate principal amount of these Notes. The term **“Notes”** shall, in the event of such increase, also comprise such further issued Notes.

**§ 12**  
**Ersetzung der Emittentin**

(1) Die Emittentin ist jederzeit berechtigt, ohne Zustimmung der Anleihegläubiger die Garantin oder eine andere Gesellschaft, deren stimmberechtigte Anteile direkt oder indirekt zu mehr als 90 % von der Emittentin gehalten werden, als Nachfolgeschuldnerin für alle Verpflichtungen aus und im Zusammenhang mit dieser Anleihe einzusetzen, sofern

- a) die Nachfolgeschuldnerin alle Verpflichtungen der Emittentin aus oder im Zusammenhang mit dieser Anleihe übernimmt und sie sämtliche sich aus oder im Zusammenhang mit dieser Anleihe ergebenden Zahlungsverpflichtungen in Euro ohne die Notwendigkeit einer Einbehaltung irgendwelcher Steuern oder Abgaben an der Quelle erfüllen sowie die hierzu erforderlichen Beträge ohne Beschränkungen an die Hauptzahlstelle transferieren kann und sie insbesondere jede hierfür notwendige Genehmigung der Behörden ihres Landes erhalten hat,
- b) die Garantin, sofern sie nicht selbst die Nachfolgeschuldnerin ist, unbeding und unwiderruflich die Verpflichtungen der Nachfolgeschuldnerin garantiert, und
- c) die Nachfolgeschuldnerin sich verpflichtet, jedem Anleihegläubiger alle Steuern, Gebühren oder Abgaben zu erstatten, die ihm infolge der Schuldübernahme durch die Nachfolgeschuldnerin auferlegt werden.

(2) Eine solche Schuldübernahme ist gemäß § 10 zu veröffentlichen.

(3) Im Falle einer solchen Schuldübernahme gilt jede Nennung der Emittentin in diesen Anleihebedingungen als auf die Nachfolgeschuldnerin bezogen und jede Nennung des Großherzogtum Luxemburg in § 5 als auf das Land bezogen, in dem die Nachfolgeschuldnerin ihren Sitz hat.

**§ 13**  
**(Anwendbares Recht, Erfüllungsort, Gerichtsstand, Zustellungsbevollmächtigter)**

(1) Form und Inhalt der Schuldverschreibungen, die Garantie sowie die Rechte und Pflichten der Anleihegläubiger und der Emittentin bestimmen sich in jeglicher Hinsicht nach deutschem Recht.

(2) Erfüllungsort ist Frankfurt am Main.

(3) Nicht-ausschließlicher Gerichtsstand ist Frankfurt am Main. Die Anleihegläubiger sind jedoch nach ihrer Wahl berechtigt, ihre Ansprüche vor den zuständigen Gerichten in dem Großherzogtum Luxemburg geltend zu machen. Die Emittentin unterwirft sich hiermit der Gerichtsbarkeit der nach diesem Absatz zuständigen Gerichte.

(4) Für etwaige Rechtsstreitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Emittentin die FIDEUROP Treuhandgesellschaft für den Gemeinsamen Markt mbh, Marie-Curie-Straße 30, D-60493 Frankfurt am Main, zum Zustellungsbevollmächtigten.

**§ 14**  
**(Sprache)**

Der deutsche Wortlaut dieser Anleihebedingungen ist allein rechtsverbindlich. Die englische Übersetzung ist unverbindlich.

**§ 12**  
**(Substitution of the Issuer)**

(1) The Issuer shall without the consent of the Noteholders be entitled at any time to appoint either the Guarantor or any other company of which more than 90% of the shares carrying the right to vote are directly or indirectly owned by it, to substitute the Issuer as principal debtor in respect of all obligations arising from or in connection with this Issue, provided that

- a) the substitute debtor assumes all obligations of the Issuer arising from or in connection with this Issue and is in a position to fulfil all payment obligations arising from or in connection with this Issue in euro without the necessity of any taxes or duties to be withheld at source and to transfer all amounts which are required therefor to the Deutsche financial Paying Agent without any restrictions, and that in particular all necessary authorisations to this effect by any competent authority have been obtained,
- b) other than in the case the Guarantor being the substitute debtor, the Guarantor irrevocably and unconditionally guarantees the obligations assumed by the substitute debtor; and
- c) the substitute debtor undertakes to reimburse any Noteholders for such taxes, fees or duties which may be imposed upon him as a consequence of the assumption of the Issuer's obligation by the substitute debtor.

(2) Any such substitution shall be published in accordance with § 10.

(3) In the event of such substitution, any reference in these Conditions of Issue to the Issuer shall from then on be deemed to refer to the substitute debtor and any reference in § 5 to the Grand-Duchy of Luxembourg shall from then on be deemed to refer to the country of domicile of the substitute debtor.

**§ 13**  
**(Applicable Law, Place of Performance, Place of Jurisdiction, Process Agent)**

(1) The Notes, both as to form and content and the Guarantee as well as the rights and duties of the Noteholders and the Issuer shall in all respects be determined in accordance with German law.

(2) The place of performance shall be Frankfurt am Main.

(3) Non-exclusive place of jurisdiction for all proceedings arising from matters provided for in these Conditions of Issue shall be Frankfurt am Main. The Noteholders are entitled to assert their claims before courts in the Grand-Duchy of Luxembourg or before any other competent court. The Issuer hereby submits to the jurisdiction of the courts, which are competent pursuant to this subparagraph.

(4) For any legal disputes or other proceedings before German courts, the Issuer appoints FIDEUROP Treuhandgesellschaft für den Gemeinsamen Markt mbh, Marie-Curie-Strasse 30, D-60493 Frankfurt am Main, as authorised agent for accepting service of process.

**§ 14**  
**(Language)**

The German text of these Conditions of Issue is the legally binding one. The English translation is for convenience only.

Non-binding translation

## **GARANTIE**

der

OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON AND STEEL WORKS  
Magnitogorsk, Rußland  
(die „Garantin“)

zugunsten der Gläubiger der  
10% Anleihe von 2002/2005  
im Gesamtnennbetrag von € 100.000.000,-  
(die „Schuldverschreibungen“)

der

MMK FINANCE S.A.  
Luxemburg, Großherzogtum Luxemburg  
(die „Emittentin“)

(1) Die Garantin gewährleistet den Gläubigern der Schuldverschreibungen (die „Anleihegläubiger“) hiermit unbedingt und unwiderruflich die ordnungsgemäße Zahlung von Kapital und Zinsen auf die Schuldverschreibungen nach Maßgabe der dieser Garantie als Bestandteil beigefügten Anleihebedingungen und zwar (i) die ordnungsgemäße und pünktliche Zahlung von Kapital und Zinsen in voller Höhe auf jede Schuldverschreibung bei Fälligkeit, sei es am Fälligkeitstag (18. Februar 2005), bei Fälligkeit im Falle der Kündigung durch Anleihegläubiger gemäß § 9 der Anleihebedingungen oder bei Fälligkeit im Falle einer Rückzahlung aus Steuergründen (gemäß § 5 der Anleihebedingungen), (ii) die ordnungsgemäße und pünktliche Zahlung von Zinsen in Höhe von € 100 auf jede Schuldverschreibung im Nennbetrag von € 1.000 zahlbar jährlich nachträglich am 18. Februar 2003, 18. Februar 2004 und 18. Februar 2005 und (iii) die ordnungsgemäße und pünktliche Zahlung von Zinsen über den Fälligkeitstag (18. Februar 2005) hinaus auf jede fällige Schuldverschreibung bis zum Ablauf des der tatsächlichen Rückzahlung des betreffenden Kapitals vorangehenden Tages. Die Garantin wird hierunter Zahlungen leisten, falls die Emittentin nicht in der Lage ist, fällige Zahlungen auf die Schuldverschreibungen zu leisten oder diese nicht leistet. Unter der Garantie zu leistende Zahlungen erfolgen über die Hauptzahlstelle (Deutsche Bank Aktiengesellschaft, Frankfurt am Main) gemäß § 4 der Anleihebedingungen.

(2) Diese Garantie begründet eine unwiderrufliche, nicht nachrangige und (vorbehaltlich der Bestimmungen in Ziffer 3 dieser Garantie) nicht besicherte Verpflichtung der Garantin, die mit allen sonstigen nicht nachrangigen und nicht besicher-

## **GUARANTEE**

by

OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON AND STEEL WORKS  
Magnitogorsk, Russia  
(the “Guarantor”)

for the benefit of the holders of the  
10% Notes of 2002/2005  
in the aggregate principal amount of  
€ 100,000,000.-  
(the “Notes”)

of

MMK FINANCE S.A.  
Luxembourg, Grand-Duchy of Luxembourg  
(the “Issuer”)

(1) The Guarantor hereby irrevocably and unconditionally guarantees to the holders of the Notes (the “Noteholders”) the due payment of principal and interest in respect of the Notes in accordance with the Conditions of Issue which are attached hereto and form part of this Guarantee, namely (i) the due and punctual payment of principal and interest in full on each Note when the same shall become due and payable, whether at the Maturity Date (18 February 2005), by notice declaring Notes due in an event of default (as set out in § 9 of the Conditions of Issue) or in case of an early redemption (as set out in § 5 of the Conditions of Issue), (ii) the due and punctual payment of interest in the amount of € 100 per Note in the principal amount of € 1,000 payable annually in arrear on 18 February 2003, 18 February 2004 and 18 February 2005, and (iii) the due and punctual payment of interest on each Note which shall accrue on each overdue beyond the Maturity Date (18 February 2005) until the end of the day preceding the day of the actual repayment of such principal. The Guarantor shall make the payments hereunder when the Issuer would not be able to make or fails to make any payments due under the Notes. The payments hereunder shall be made through the Principal Paying Agent (Deutsche Bank Aktiengesellschaft, Frankfurt am Main) as set out in § 4 of the Conditions of Issue.

(2) This Guarantee constitutes an unconditional, unsecured (subject to (3) hereunder) and unsecured obligation of the Guarantor and ranks *pari passu* with all other unsecured and unsecured obligations of the Guarantor outstanding.

ten Verpflichtungen der Garantin wenigstens im gleichen Rang steht (soweit nicht zwingende gesetzliche Bestimmungen entgegenstehen).

(3) Solange Schuldverschreibungen ausstehen wird die Garantin sicherstellen, daß weder sie selbst noch eine Tochtergesellschaft (wie in § 9 (1) der Anleihebedingungen definiert) ihr gegenwärtiges oder zukünftiges Vermögen ganz oder teilweise mit irgendeinem Sicherungsrecht (wie nachstehend definiert) zum Zwecke der Besicherung von anderen Schuldverschreibungen oder sonstigen Schuldverbindlichkeiten aus aufgenommenen Geldern mit einer ursprünglichen Laufzeit von mehr als einem Jahr, seien es solche der Garantin, der Tochtergesellschaft oder eines Dritten, oder zur Besicherung einer Garantie oder sonstigen Gewährleistung der Garantin, der Tochtergesellschaft oder eines Dritten für solche Schuldverschreibungen oder Schuldverbindlichkeiten belasten wird, ohne die Anleihegläubiger nach Ansicht einer unabhängigen, internationalen Wirtschaftsprüfungsgesellschaft zumindest gleichzeitig an demselben Sicherungsrecht im gleichen Rang und im gleichen Verhältnis teilnehmen zu lassen. "Sicherungsrecht" bedeutet jedes dingliche Recht oder Zurückbehaltungsrecht. Satz 1 findet keine Anwendung auf

- (i) Sicherungsrechte an einem Vermögensgegenstand, die zur Besicherung der Finanzierung des Erwerbs, der Reparatur oder der Errichtung des Vermögensgegenstandes bestellt werden,
- (ii) jede Verlängerung, Erneuerung oder Ersetzung eines vorstehend unter (i) beschriebenen Sicherungsrechtes,
- (iii) jedes andere Sicherungsrecht, außer den vorstehend beschriebenen, vorausgesetzt, unmittelbar nach der Bestellung des Sicherungsrechtes liegt der Gesamtbetrag der von der Garantin besicherten Verbindlichkeiten nicht höher als 10% des gesamten Vermögens der Garantin, jeweils ausweislich ihrer jeweils letzten halbjährlichen konsolidierten Bilanz, die in Übereinstimmung mit den *International Accounting Standard* ("IAS") oder *Generally Accepted Accounting Principles in the United States* ("US-GAAP") erstellt und im Fall der jährlichen konsolidierten Bilanz geprüft wurde.

(4) Die Garantin verpflichtet sich weiterhin sicherzustellen, solange Schuldverschreibungen ausstehen, daß

ing from time to time, subject to any obligations preferred by law.

(3) So long as any Note remains outstanding, the Guarantor shall not, and shall procure that no subsidiary (as defined in § 9 (1) of the Conditions of Issue), create any Security Interest (as defined below) in any or all of its present or future assets to secure any other notes or indebtedness of the Guarantor, its subsidiary or a third party for borrowed moneys with an initial maturity of more than one year or to secure any guarantee or other warranties in respect thereof of the Guarantor, its subsidiary or a third party without at the same time, or prior thereto, securing the Notes equally and rateably therewith or providing such other security for the Notes as is determined by an independent accounting firm of international standing as being not less beneficial to the Noteholders. "Security Interest" means any Security Interest upon property or any lien. The first sentence of this paragraph shall not apply in the case of:

- (i) any Security Interest on any property securing the debt incurred for the purposes of financing all or part of the cost of acquiring, repairing or constructing such property;
- (ii) any extensions of the validity, or any renewals or replacements of any Security Interest described in (i) above;
- (iii) any Security Interest other than those described above, provided that immediately after giving effect to such Security Interest, all of the Guarantor's secured debt in the aggregate do not exceed 10% of the Guarantor's total assets, in each case as determined in the Guarantor's most recent semi-annual consolidated balance sheet prepared and, in the case of the annual consolidated balance sheet audited in accordance with International Accounting Standards ("IAS") or Generally Accepted Accounting Principles in the United States of America ("US-GAAP").

(4) The Guarantor further undertakes to procure, so long as any of the Notes remain outstanding, that

- (a) die Höhe der Gesamtverschuldung, berechnet als Prozentanteil an der Kapitalisierung, nicht mehr als 50% an jedem Berechnungstag beträgt,
- (b) innerhalb von 150 Tagen nach jedem Berechnungstag bei der Hauptzahlstelle ein Bestätigungsvermerk hinterlegt wird, der von den Anleihegläubigern zu den üblichen Geschäftszeiten eingesehen werden kann.

- a) the amount of Total Debt as a percentage of Capitalisation shall not exceed 50% on each Calculation Date,
- b) a Compliance Certificate will be deposited with the Principal Paying Agent not later than 150 days after each Calculation Date and such Compliance Certificate may be inspected during the usual business hours by the Noteholders.

Im Sinne dieser Garantie bezeichnet

For purposes of these Guarantee

“Berechnungstag” den 30. Juni und 31. Dezember eines jeden Jahres, solange Schuldverschreibungen ausstehen;

“Calculation Date” means 30 June and 31 December of each year on which any Note is outstanding;

“Kapitalisierung” zu jedem Zeitpunkt jeweils den Betrag an Gesamtverschuldung, Grundkapital und Rücklagen der Garantin und ihrer konsolidierten Tochtergesellschaften, der in Übereinstimmung mit IAS oder, sollte die Garantin ihre Rechnungslegung auf US-GAAP umstellen, in Übereinstimmung mit US-GAAP festgestellt wurde;

“Capitalisation” means at any time the amount of Total Debt and capital and reserves of the Guarantor and its consolidated subsidiaries at that time as established in accordance with IAS, or in accordance with US-GAAP in case of a change of the Guarantor’s accounting method to US-GAAP;

“Bestätigungsvermerk” ein Vermerk der Wirtschaftsprüfer der Garantin in englischer Sprache, der zur Hinterlegung bei der Hauptzahlstelle gemäß des obenstehenden Absatz (4) b) bestimmt ist und der bestätigt, ob die Garantin am jeweils letzten vorhergehenden Berechnungstag die Beschränkungen des obenstehenden Absatz (4) a) eingehalten hat;

“Compliance Certificate” means a certificate from the auditors of the Guarantor in the English language for deposit at Principal Paying Agent pursuant to paragraph (4) b) above certifying whether or not the Guarantor was in compliance with the covenants in paragraph (4) a) above on the last Calculation Date;

“Gesamtverschuldung” zu jedem Zeitpunkt jeweils den Betrag an Verbindlichkeiten der Garantin und ihrer konsolidierten Tochterunternehmen gegenüber Dritten, der in Übereinstimmung mit IAS oder, sollte die Garantin ihre Rechnungslegung auf US-GAAP umstellen, in Übereinstimmung mit US-GAAP festgestellt wurde.

“Total Debt” means at any time the amount of the indebtedness of the Guarantor and its consolidated subsidiaries to third parties at that time as established in accordance with IAS or in accordance with US-GAAP in case of a change of the Guarantor’s accounting method to US-GAAP.

(5) Zahlungen der Garantin aufgrund dieser Garantie werden ohne Abzug oder Einbehalt gegenwärtiger oder zukünftiger Steuern, Abgaben oder amtlicher Gebühren gleich welcher Art geleistet, die von oder in der Russischen Föderation oder für deren Rechnung oder von oder für Rechnung einer dort zur Steuererhebung ermächtigten Gebietskörperschaft oder Behörde auferlegt, erhoben oder eingezogen werden (nachstehend zusammen „Quellensteuern der Garantin“ genannt), es sei denn, ein solcher Abzug oder Einbehalt ist gesetzlich vorgeschrieben. In diesem letzteren Fall wird die Garantin die zusätzlichen Beträge an Kapital und Zinsen zahlen, die erforderlich sind, damit der dem

(5) Payments by the Guarantor hereunder shall be made without deduction or withholding for or on account of any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or in or on behalf of the Russian Federation or by or on behalf of any political subdivision or authority therein having power to tax (hereinafter together called “Withholding Taxes of the Guarantor”), unless such deduction or withholding is required by law. In such event, the Guarantor shall pay such additional amounts of principal and interest as may be necessary in order that the net amounts received by the bearer after such deduction or withholding shall equal the

Inhaber nach diesem Abzug oder Einbehalt zufließende Nettobetrag jeweils den Beträgen an Kapital und Zinsen entspricht, die ihm zustehen würden, wenn der Abzug oder Einbehalt nicht erforderlich wäre. Solche zusätzlichen Beträge sind jedoch nicht zahlbar wegen Steuern, Abgaben oder amtlicher Gebühren, die aufgrund gegenwärtiger oder früherer persönlicher oder geschäftlicher Beziehungen des Anleihegläubigers zu der Russischen Föderation zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die Schuldverschreibungen aus Quellen in der Russischen Föderation stammen oder für Zwecke der Besteuerung so behandelt werden oder dort besichert sind.

(6) Die Verpflichtungen der Garantin aus dieser Garantie (i) sind selbständig und unabhängig von den Verpflichtungen der MMK Finance S.A. aus den Schuldverschreibungen, (ii) bestehen ohne Rücksicht auf die Rechtmäßigkeit, Gültigkeit, Verbindlichkeit und Durchsetzbarkeit der Schuldverschreibungen und (iii) werden nicht durch irgendein Ereignis, eine Bedingung oder einen Umstand tatsächlicher oder rechtlicher Natur berührt, außer durch die volle, endgültige und unwiderrufliche Erfüllung jedweder in den Schuldverschreibungen ausdrücklich eingegangener Zahlungsverpflichtungen.

(7) Die Verpflichtungen der Garantin aus dieser Garantie erstrecken sich, ohne daß es einer weiteren Handlung bedarf oder ein weiterer Umstand vorlegen muß, auf solche Verpflichtungen einer mit der Garantin nicht identischen neuen Emittentin, die infolge einer Schuldnerersetzung gemäß § 12 der Anleihebedingungen in bezug auf die Schuldverschreibung entstehen.

(8) Diese Garantie und alle hierin enthaltenen Vereinbarungen stellen einen Vertrag zugunsten der Anleihegläubiger als begünstigte Dritte gemäß § 328 (1) BGB dar und begründen das Recht eines jeden Anleihegläubigers, die Erfüllung der hierin enthaltenen Verpflichtungen unmittelbar von der Garantin zu fordern und diese Verpflichtungen unmittelbar gegenüber der Garantin durchzusetzen.

Ein Gläubiger einer Schuldverschreibung kann im Falle der Nichterfüllung von Zahlungen auf die Schuldverschreibungen zur Durchsetzung dieser Garantie unmittelbar gegen die Garantin Klage erheben, ohne daß zunächst ein Verfahren gegen die MMK Finance S. A. eingeleitet werden müßte.

(9) Die Deutsche Bank Aktiengesellschaft, mit der die hierin enthaltenen Vereinbarungen getroffen

respective amounts of principal and interest which would have been receivable had no such deduction or withholding been required. No such additional amounts shall, however, be payable on account of any taxes, duties or governmental charges which are deducted or withheld by reason of the Noteholders having, or having had, some personal or business connection with the Russian Federation and not merely by reason of the fact that payments in respect of the Notes are, or for purposes of taxation are deemed to be, derived from sources in, or are secured in the Russian Federation.

(6) The obligations of the Guarantor under this Guarantee (i) shall be separate and independent from the obligations of MMK Finance S.A. under the Notes, (ii) shall exist irrespective of the legality, validity and binding effect or enforceability of the Notes, and (iii) shall not be affected by any event, condition or circumstance of whatever nature, whether factual or legal, save the full, definitive and irrevocable satisfaction of any and all payment obligations expressed to be assumed under the Notes.

(7) The obligations of the Guarantor under this Guarantee shall, without any further act or thing being required to be done or to occur, extend to the obligations of any Substitute Debtor which is not the Guarantor arising in respect of any Note by virtue of a substitution pursuant to § 12 of the Conditions of Issue.

(8) This Guarantee and all undertakings contained herein constitute a contract for the benefit of the Noteholders as third party beneficiaries pursuant to § 328 (1) BGB (German Civil Code) giving rise to the right of each such Noteholder to require performance of the obligations undertaken herein directly from the Guarantor and to enforce such obligations directly against the Guarantor.

When the payments due under the Notes have not been made, the Guarantor can be sued for this purpose by each Noteholder without prior legal action of such Noteholder against MMK Finance S. A.

(9) Deutsche Bank Aktiengesellschaft, which accepted this Guarantee, does not act in a rela-

werden, handelt nicht als Beauftragte, Treuhänderin oder in ähnlicher Eigenschaft für die Anleihegläubiger.

(10) Die hierin verwendeten und nicht anders definierten Begriffe haben die ihnen in den Anleihebedingungen zugewiesene Bedeutung.

(11) Diese Garantie unterliegt deutschem Recht.

(12) Diese Garantie ist in deutscher Sprache abgefaßt und in dieser Fassung verbindlich und allein maßgeblich. Eine unverbindliche Übersetzung in die englische Sprache ist beigelegt.

(13) Das Original dieser Garantie wird der Deutsche Bank Aktiengesellschaft ausgehändigt und von dieser verwahrt.

(14) Nicht-ausschließlicher Gerichtsstand für alle Rechtsstreitigkeiten gegen die Garantin aus oder im Zusammenhang mit dieser Garantie ist Frankfurt am Main. Die Anleihegläubiger können ihre Ansprüche auch vor anderen zuständigen Gerichten geltend machen.

(15) Für etwaige im Zusammenhang mit den Schuldverschreibungen entstehende Rechtsstreitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Garantin jeweils FIDEUROP Treuhandgesellschaft für den Gemeinsamen Markt mbH, Marie-Curie-Straße 30, D-60493 Frankfurt am Main, zum Zustellungsbevollmächtigten. Die Bestellung zum Zustellungsbevollmächtigten ist unwiderruflich, bis alle Geldbeträge im Zusammenhang mit der Anleihe an die Hauptzahlstelle gezahlt worden sind. Falls jedoch der Zustellungsbevollmächtigte aus irgendeinem Grund nicht in der Lage ist, als Zustellungsbevollmächtigter zu handeln oder keine Adresse in Deutschland unterhält, wird die Garantin jeweils eine andere Person in Deutschland als Zustellungsbevollmächtigten bestimmen.

(16) Wenn die unter dieser Garantie fälligen Zahlungen nicht erfolgt sind, kann jeder Anleihegläubiger seine Rechte aus dieser Garantie gegenüber der Garantin auf folgender Grundlage wahrnehmen: (i) Er bringt eine Bescheinigung der Depotbank bei, bei der er für die Schuldverschreibungen ein Wertpapierdepot unterhält, welche (a) den vollständigen Namen und die vollständige Adresse des Anleihegläubigers enthält, (b) den Gesamtnennbetrag der Schuldverschreibungen bezeichnet, die unter dem Datum der Bestätigung auf dem Wertpapierdepot verbucht sind und (c) bestätigt, daß

tionship of agency or trust in a fiduciary or in any other similar capacity for the Noteholders.

(10) Terms used in this Guarantee and not otherwise defined herein shall have the meaning attributed to them in the Conditions of Issue.

(11) This Guarantee shall be governed by, and construed in accordance with, German law.

(12) This Guarantee is written in the German language, which shall solely be binding. Attached hereto is a non-binding English translation.

(13) The original version of this Guarantee shall be delivered to, and kept by, Deutsche Bank Aktiengesellschaft.

(14) Non-exclusive place of jurisdiction for all legal proceedings arising out or in connection with this Guarantee against the Guarantor shall be Frankfurt am Main. The Noteholders can assert their claims in any other competent court.

(15) For any legal disputes or other proceedings before German courts arising solely out of or in connection with this Guarantee, the Guarantor appoints FIDEUROP Treuhandgesellschaft für den Gemeinsamen Markt mbH, Marie-Curie-Straße 30, D-60493 Frankfurt am Main, as authorised agent for accepting service of process. The Guarantor's appointment of its authorised agent is irrevocable until all amounts in respect of all the Notes have been paid to Principal Paying Agent, except that if, for any reason, the authorised agent ceases to be able to act as such authorised agent or to have an address in Germany, the Guarantor will appoint another person in Germany.

(16) When the payment due under this Guarantee has not been made, each Noteholder may enforce in his own name his rights arising under this Guarantee against the Guarantor on the basis of (i) a statement issued by the Custodian with whom such Noteholder maintains a securities account in respect of the Notes (a) stating the full name and address of the Noteholder, (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pur-

die Depotbank gegenüber dem Clearing-System eine schriftliche Erklärung abgegeben hat, die die vorstehend unter (a) und (b) bezeichneten Informationen enthält; und (ii) er legt eine Kopie der Globalurkunde vor, deren Übereinstimmung mit dem Original eine vertretungsberechtigte Person des Clearing-Systems oder der Verwahrstelle des Clearing-Systems bescheinigt hat, ohne daß eine Vorlage der Originalbelege oder der Globalurkunde erforderlich wäre. „Depotbank“ im Sinne des Vorstehenden ist jedes Kreditinstitut oder jedes anerkannte Finanzinstitut, das berechtigt ist, das Wertpapierverwahrgeschäft zu betreiben, und bei dem der Anleihegläubiger ein Wertpapierdepot für die Schuldverschreibungen unterhält; hierin eingeschlossen ist das Clearing-System. Für Zwecke dieser Garantie ist die Adresse der Garantin:

OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON AND STEEL WORKS  
Ul. Kirova 93,  
Magnitogorsk, Chelyabinsk Region,  
455002 Rußland  
z. Hd. Deputy General Director for Finance and  
Economy

Frankfurt am Main, im Februar 2002

**Open Joint Stock Company  
Magnitogorsk Iron and Steel Works**

Wir nehmen die vorstehenden Erklärungen an.

Frankfurt am Main, im Februar 2002

Deutsche Bank Aktiengesellschaft

suant to (a) and (b) and (ii) a copy of the Global Note certified as being a true copy by a duly authorized officer of the Clearing System or a depositary of the Clearing System, without the need for production of the actual records or the Global Note. For purposes of the foregoing, “Custodian” means any bank or other financial institution of recognized standing authorized to engage in securities custody business with which the Noteholder maintains a securities account in respect of the Notes and includes the Clearing System. For purposes of this Guarantee the address of the Guarantor is:

OPEN JOINT STOCK COMPANY  
MAGNITOGORSK IRON AND STEEL WORKS  
Ul. Kirova 93,  
Magnitogorsk, Chelyabinsk Region,  
455002 Russia  
Attn.: Deputy General Director for Finance and  
Economy

Frankfurt am Main, in February 2002

**Open Joint Stock Company  
Magnitogorsk Iron and Steel Works**

We accept all of the terms of the above Guarantee.

Frankfurt am Main, in February 2002

Deutsche Bank Aktiengesellschaft

## MMK Finance S.A.

### Incorporation and Seat

MMK Finance S.A. ("MMK Finance") was incorporated in the Grand-Duchy of Luxembourg on 19 November 2001 under the laws of the Grand-Duchy of Luxembourg as a joint stock company (*société anonyme*) for an unlimited period of time. It has its statutory seat in Luxembourg where it is registered in the Trade and Company Register of the District Court of Luxembourg under number B 84464. Its registered office is at 38–40 rue Sainte Zithe, L-2763 Luxembourg.

### Objects

The object of MMK Finance is the holding of participations, in any form whatsoever, in Luxembourg companies and foreign companies, and any other form of investment, the acquisition by purchase, subscription, or in any other manner as well as the transfer by sale, exchange or otherwise of securities of any kind, and the administration, control and development of its portfolio.

MMK Finance is authorized to finance other companies in the MMK Group and to issue bonds of any nature and of any currency.

MMK Finance may carry out any commercial, industrial or financial operation which it may deem useful in accomplishment of its purposes in accordance with the Law of 10 August 1915 on Commercial Companies, as amended.

### Capital Stock and Ownership

The authorised capital amounts to EUR 31,000 and is divided into 31 shares of EUR 1,000 each. All shares are fully paid up. One share is held by Mr. Guy Harles while the remaining 30 shares are held by MMK Steel Trade AG, Zug, Switzerland, which in turn is wholly owned by MMK.

### Capitalisation

The following table shows the unaudited and unconsolidated capitalisation of MMK Finance as at 31 January 2002 adjusted for the issue of the Notes to which this Offering Circular pertains:

	31 January 2002
	€
<b>Shareholders' equity</b>	
Issued capital . . . . .	31,000
Retained earnings . . . . .	0
	<u>31,000</u>
<b>Non-current Liabilities</b>	
€ 100,000,000 10% Notes of 2002/2005 . . . . .	100,000,000
<b>Current Liabilities</b> . . . . .	0
<b>Total Capitalisation</b> . . . . .	<u><u>100,031,000</u></u>

Except as disclosed herein, there has been no material change in the capitalisation of MMK since 31 January 2002.

## **Management**

### *Board of Directors*

At present, the Board of Directors consists of the following members:

#### A Directors

Vladimir I. Chmakov, residing at Kuibysheva St. 28-41, Magnitogorsk, Russia

Oleg V. Fedonin, residing at Lomonosova St. 18-3, Magnitogorsk, Russia

#### B Director

Guy Harles, maître en droit, residing at 8-10, rue Mathias Hardt, L-1717 Luxembourg

## **General Meeting of the Shareholders**

The annual general meeting of shareholders shall be held in Luxembourg at the registered office of the company, or at such other place in Luxembourg as may be specified in the notice of meeting, on the 1 August at 10.30 a.m. If such day is a legal holiday, the annual general meeting shall be held on the previous business day. The first annual general meeting of shareholders shall be held in 2003.

## **Independent Auditors**

The independent auditors of MMK Finance are KPMG Audit Réviseurs d'Entreprises, 31, Allée Schef-fer, L-2520 Luxembourg.

## **Financial Year**

The financial year of the company begins on 1 January of each year and terminates on 31 December of the same year.

The first financial year began on the date of the formation of the company and will terminate on 31 December 2002.

# **Open Joint Stock Company Magnitogorsk Iron and Steel Works (“MMK”)**

## **Incorporation and Seat**

MMK was established as a state owned enterprise in 1932. It was privatised on 17 October 1992, as part of the Russian Federation’s privatisation programme, as an open joint stock company under the laws of the Russian Federation for an unlimited period of time. The head office of the MMK Group is located at Ulitsa Kirova 93, 455002 Magnitogorsk, Russia. MMK is registered by the decree of the Mayor of Magnitogorsk No. 211-P dated 17 October 1992 (certificate of registration No. 0002 series GA).

## **Objects and Main Activities**

As per its Charter (Article 3), the main goal of MMK’s activity is the gaining of profit.

The main activities of MMK are as follows:

- ore mining;
- preparation of ore materials for reprocessing and consumption and their sale;
- production and sale of ferrous metals’ products;
- production and sale of machine-building products;
- stocking and sale of ferrous and non-ferrous metal scrap;
- development of R&D products and their sale;
- implementation of investment projects;
- production and sale of consumer goods;
- industrial, housing and utilities construction and construction services;
- production and sale of construction materials and structures and recycling of wastes;
- production, processing and sale of agricultural products;
- paid services of industrial and non-industrial nature to companies, organizations, establishments and the population;
- foreign economic and trade activity;
- medical assistance and disease prevention services;
- communication services;
- other activities not prohibited by laws in effect.

The legal status of MMK as a commercial company allows it to carry out any activities not prohibited by federal laws.

## **Capital Stock and Ownership**

MMK’s authorised share capital amounts to RUR 8.86 million, which consists of 6,643,888 ordinary shares in the nominal amount of RUR 1 each and 2,214,630 preference shares in the nominal amount of RUR 1 each. All shares are issued and fully paid up. At present there are three main shareholder groups:

- The federal Russian government owns 23.76% of ordinary shares (which equals 17.82% of equity);
- Fulwell Investments Limited, a company registered in the Republic of Cyprus, and affiliated companies own 15.85% of the ordinary shares;

- Through certain of MMK's wholly-owned subsidiaries MMK management controls 55.57% of the ordinary shares, of which 29.73% are held by ZAO A-Kapital, 1.18% by MEKOM as owner, 21.81% by MEKOM as trustee, 2.72% by ZAO IK RFC and 0.13% by others; and
- the remainder of 4.82% is held by natural and legal persons. At present MMK accounts for approximately 40,000 small shareholders.

### Other Securities

As of the date hereof, no convertible or exchangeable debt securities or debt securities with warrants attached have been issued by MMK.

### Capitalisation

The following table shows the unaudited and unconsolidated capitalisation of MMK as at 30 September 2001 adjusted for the liability incurred in connection with the issue of the Notes (\*):

	30 September 2001
	(USD million)
<b>Shareholders' equity</b>	
Issued capital . . . . .	26
Retained earnings . . . . .	1,489
	<u>1,515</u>
<b>Non-current liabilities (**)</b>	
Trade and other payables . . . . .	56
Deferred tax liabilities . . . . .	309
Liability in connection with the issue of the Notes . . . . .	91
	<u>456</u>
<b>Current liabilities (**)</b>	
Trade and other payables . . . . .	263
Loans and other borrowings . . . . .	113
	<u>376</u>
<b>Total Capitalisation . . . . .</b>	<u><u>2,347</u></u>

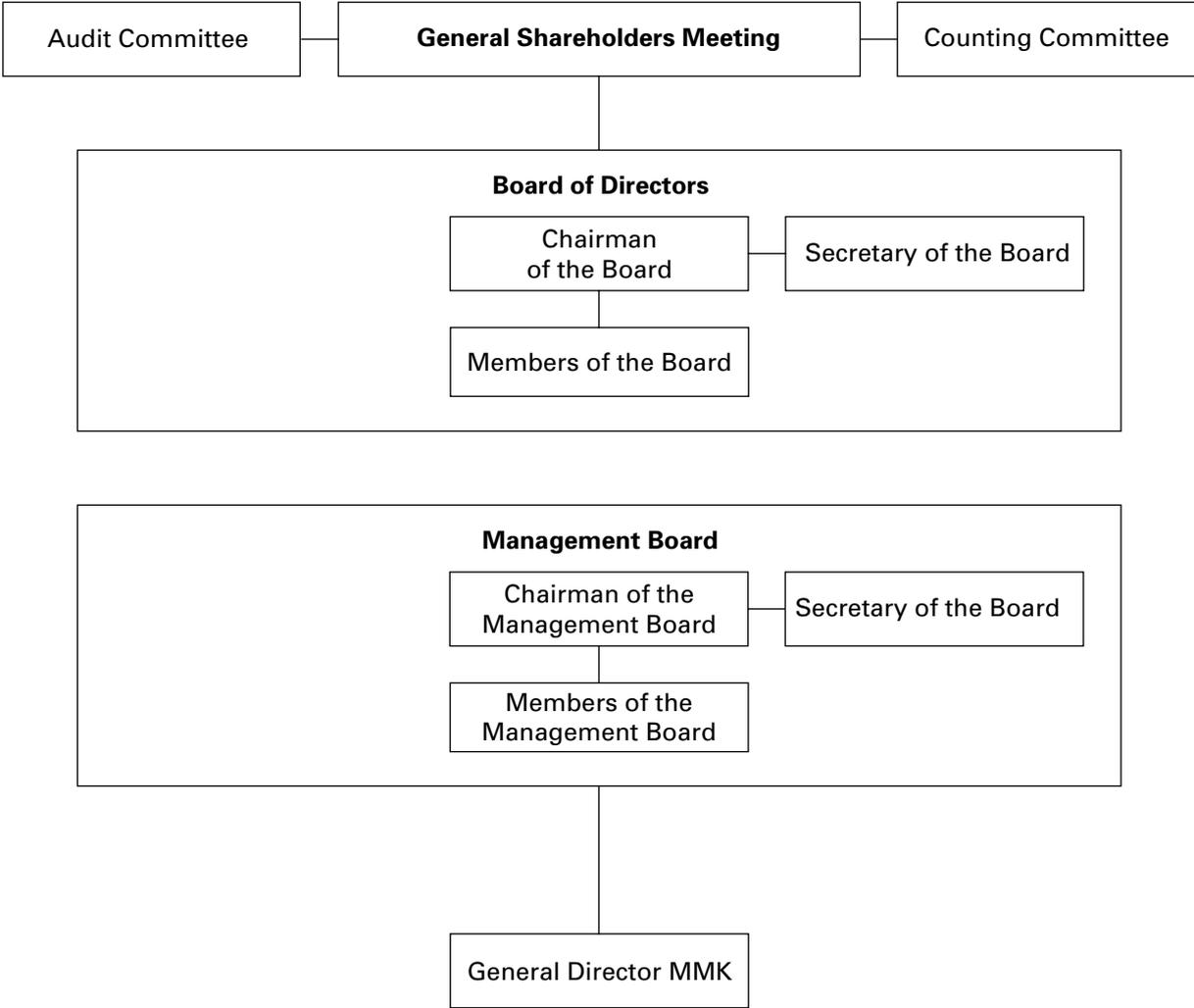
(\*) Please note that obligations under the defined benefit pension plan were not accrued for in accordance with IAS 19 *Employee Benefits*. This may result in a material adverse change to the capitalisation of MMK as set out herein.

(\*\*) The current liabilities are repayable within one year from the balance sheet date. The non-current liabilities are repayable not earlier than one year from the balance sheet date.

Except as disclosed in this Offering Circular, there has been no material change in the capitalisation of MMK since 30 September 2001.

# Structure of MMK

## Governing Bodies



## **Management**

### **Board of Directors (supervisory board)**

At present, the Board of Directors consists of the following members:

Shalva P. Breus, Deputy Minister of Property Relations of the Russian Federation

Vyacheslav N. Egorov, Director of ZAO "Russkaya Metallurgicheskaya Companiya"

Vladimir F. Iorikh, Director Conares Trading AG

Serguei V. Krivoshchekov, MMK Deputy General Director for Strategic Planning and Ownership

Victor A. Kutishchev, MMK Commercial Director

Andrey A. Morozov, MMK First Deputy General Director

Victor F. Rashnikov, MMK General Director

Guennadi S. Senichev, MMK Deputy General Director for Finance and Economy

Rafkat S. Takhautdinov, MMK Deputy General Director for Production and Construction

Victor B. Khristenko, Deputy Chairman of the Government of the Russian Federation

### **General Director**

Victor F. Rashnikov

### **Management Board**

At present, the Management Board consists of the following members:

Valentin V. Antonyuk, MMK Director for Construction

Vladimir Z. Bliznyuk, Chairman of MMK Trade Union

Igor J. Shpak, MMK Director for Finance and Economy

Lyubov T. Gamper, Head of MMK Legal Administration

Marina A. Zhemchueva, MMK Chief Accountant

Boris A. Dubrovsky, MMK Chief Engineer

Nikolai V. Lyadov, MMK Director for Security

Alexander L. Mastruev, MMK Director for Personnel and Social Programs

Andrey A. Morozov, MMK First Deputy General Director

Victor F. Rashnikov, MMK General Director

Alexey A. Rudchenko, MMK Director for Integration Policy

Ivan F. Timoshenko, MMK Director for General Affairs

Alexander A. Ushakov, MMK Director for Sales

Arkadiy V. Chernov, Assistant of MMK General Director – Advisor

### **Ordinary General Shareholders' Meeting**

The annual meeting of the shareholders is held not earlier than two months and not later than six months after the end of the financial year.

## **Independent Auditors**

The independent auditors of MMK are KPMG Limited, 11 Gogolevsky Boulevard, Moscow 121019, Russia. They have audited the consolidated financial statements for MMK for the year ended 31 December 2000. They have issued an unqualified opinion for the year 2000.

Since 1997 MMK has prepared financial statements in accordance with International Accounting Standards (IAS), although they were unconsolidated, and for the first time it presented audited consolidated financial statements for 2000 (with 1998 and 1999 restated).

## **Financial Year**

The financial year of MMK is the calendar year.

## **Business Description**

### *MMK's market position*

At present a substantial differentiation is emerging within the Russian metallurgical sector depending on the companies' flexibility to respond to the changing environment. The Russian steel sector consists of nine large steel companies that produce around 91% of total output, and about 19 mid-sized plants and a large number of small mills. While the largest steel producers are profitable, more than a third of all steel plants stand idle or continue to make heavy losses. Whilst some of them have practised asset stripping over some years and others were just struggling to survive, some have prepared for the challenges of the new era by modernising and restructuring their facilities and products. The three largest steel companies and market makers in Russia held a total market share of 57.57% at the end of 2000 (MMK 20.78%, Severstal 19.77% and Novolipetsk 17.02%) and are at different stages of modernisation and rehabilitation. To a certain extent competition among them is mitigated by geographical distances creating some natural home markets.

In spite of the difficult operating environment of high inflation, a severe decline in industrial production and a lack of cash that characterised the domestic market between the beginning of the 1990's and 1999, MMK managed to establish sound sales levels of its products, and it also managed to maintain and upgrade its capital stock by investing from its operating cash flow between USD 120 and 170 million annually in targeted rehabilitation and modernisation works. Severstal, MMK's main competitor, began pursuing a strategy of developing a multiform business by buying into manufacturing.

### *Structure*

MMK is the parent company of the MMK group of companies (the "Group"). Its main component is the vertically integrated MMK that embraces the full technological cycle producing commodity and value-added products. In addition, MMK fully controls a heterogeneous range of 36 subsidiaries representing roughly 4% of total revenues in the consolidated financial statement for 2000 and affiliations of lesser importance. The subsidiaries are included in the strategic projections of MMK. These subsidiaries are located in Magnitogorsk or its proximity. Some of these subsidiaries are instrumental for the Group's output such as ZAO Profit which sources scrap, and ZAO Glubokaya Pererabotka which produces specialist items such as packaging strips, electrodes and galvanised pipes of small diameter. Others are Russkyi Metallurgical Company, refractory plants, and MMK's own transportation and maintenance firms as well as construction factories. Since two years MMK has an international trade company MMK Steel Trade AG which is located in Switzerland.

In addition, MMK owns stakes in affiliations which, however, are not consolidated: it holds among others participations of 25 to 50% in seven affiliates, participations of up to 20% in 22 affiliates and in 14 non-profit organisations.

In view of the collapse of the domestic consumer market during the lengthy economic crisis of the 1990's MMK took charge of the subsistence of its employees by investing in various food producing factories

creating at the same time new work places for people made redundant in modernised sections of the steel plant. These stakes are expected to be sold as soon as the overall economic situation is stable.

### *Business profile – impact of modernisation*

MMK produces a wide range of products and is also a supplier of high quality cold rolled band and tin plate. It is able to offer various customised steel grades. The wide scope of the products offered by MMK, combined with a strong market position domestically and at the international level provides a certain flexibility and contributes to partially offset the effects of a highly cyclical demand. MMK's installed capacity for steel production amounts to 12 million tons per year. After an output of commercial steel products of 8.7 million tons in 2000, MMK expects the respective figure to reach 9 million tons/year in 2001 and 9.5 million tons/year in 2002.

### **Selected Production Figures for 2000**

	(in thousand tons)
Iron ore .....	1,189.6
Sinter .....	8,624.7
Coke (6% moist) .....	5,002.4
Pig iron .....	8,467.0
Steel – total .....	10,014.1
<b>Commercial steel products .....</b>	<b>8,678.3</b>
of which:	
Billets & slabs .....	879.5
Long products .....	1,284.7
Flat products .....	5,639.0
Downstream products .....	875.1

Source: Company report.

MMK produces commodity products such as long products (billets, bars, wire rod, strips, beams etc.) and flat products (slabs, hot and cold rolled coils, hot rolled sheets and plates etc.) and high-value products including galvanised steel sheets and tin plate. It intends to increase the output of value-added products with the purpose of balancing the cyclicality. While the quality of crude steel and commodity products is considered by MMK to be in line with international standards MMK strives to reach further quality improvements for its value-added products.

Following a new long-term agreement with Gazprom MMK will supply to the gas producer special pipes of large diameter usable in environments of low temperatures (down to minus 60° C); projected sales will amount to about half a million tons per year. In addition, demand is increasing for armoured steel and the governmental programme to include more Russian towns and settlements into the national gas supply network (gas supplies by pipes of small diameter) as well as the road construction programme which requires metallic side panels, should open new markets.

The quality improvements are going along with increasing efficiency based on a cost cutting programme saving an amount in the counter-value of USD 30–40 million annually. A significant cost saving has been realised with respect to electricity. A few years ago MMK had to buy 50% of electricity used, which was an important cost factor. At present it produces 90% of electricity in its own facilities and intends to stop buying electricity in 2003.

### *Sourcing of raw materials*

The main raw materials MMK has to source are iron ore, coal, scrap and ferroalloys. One third of scrap can be taken from recycling its own outdated facilities. MMK takes limestone from its own pits and produces 90% of electricity on its own and aims to reach 100% coverage in 2003. The company also provides heating power to the city of Magnitogorsk and secures the city's water supply. MMK uses natural gas for heating in different plants, but can switch to coal. However, the new long-term

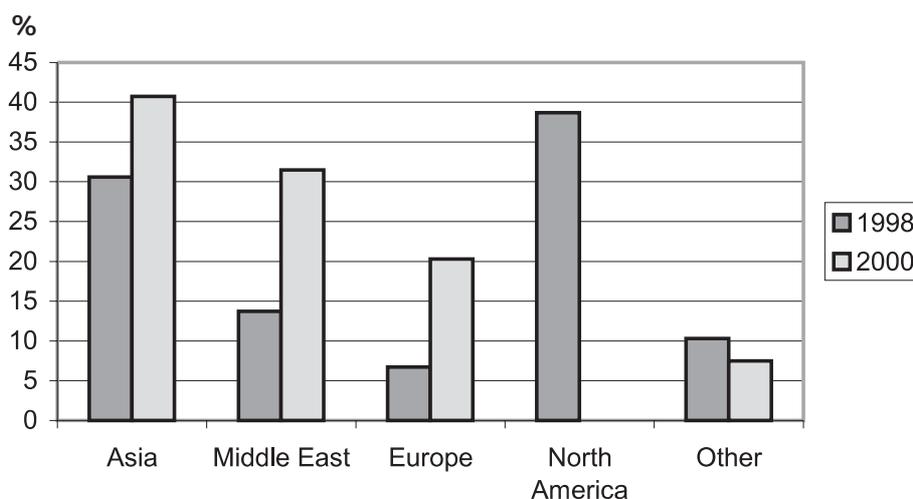
agreement with Gazprom should provide for stable gas deliveries. In view of its geographical location in a zone of harsh climate the company needs additional winter provisioning of iron ore, coal and scrap covering the supply needed for approximately one month of production.

A major supplier of good quality iron ore is the Kazakhstani Sokolovski mine, at 300 km from Magnitogorsk, another supplier is the Michailovski mine in the Kursk region at 1,200 km distance. However, MMK has its own coal and iron ore mines that can be developed if supplier prices turn unacceptable. Coal is bought from Arshan and the Kuzbass. Recently MMK jointly with Severstal acquired a controlling stake in the coal company Kuzbassugol, which it sees as an important step to manage coal prices. In recent years it also bought coal from the Karaganda coal mine in Kazakhstan. In this neighbouring country it also sources manganese ore whilst the other materials for steel treatment including silicon, ferroalloys, tin, zinc etc. come from the Urals.

### Shipments

MMK has a diversified customer base at the international level and on the domestic market. It sells roughly 70 different steel products and by-products (cement, gravel, coke, chemicals etc.). The choice of markets, however, is largely determined by its geographical location in the southern Urals on the one hand and the long distance to overseas ports on the other. Since its production site is landlocked, transportation costs became an important issue impacting costs markedly. For its exports preferred destinations are Southeast Asian countries (China, Korea, Philippines) and Japan. With respect to domestic sales the Urals industrial region represents the main destination taking around 50% of total supplies.

**Changes in Export shipments**



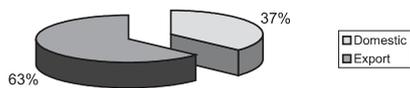
Source: Company Reports

For 13 years MMK has been active in the international steel market, continuously increasing the proportion of its exports to about 65% of total shipments at the end of the 1990's. Since then this proportion has been gradually shrinking due to the turnaround of the Russian economy and the increase of domestic demand. MMK's management took the decision to maintain the export volume at its present level, but to increase the share of domestic deliveries with the objective to reach a ratio of 50:50 at the end of 2001. For 2000 MMK reported an export share of 59% with a share of 41.1% of flat products and 8.8% of billets and slabs. The highest margins could be obtained with value-added products that reached a market share of 4.5%.

MMK's flexibility – based on the level of quality and the wide range of its products – enabled it to switch part of the shipments from the Southeast Asian market to North America when the financial crisis of 1997 took its toll in Asia. When the devaluation of the Rouble by more than 40% in 1998

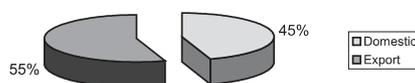
increased the competitiveness of Russian steel products in the international markets the Russian steel producers strove to increase their exports to North America and EU-markets benefiting from the solvency of these markets. However, in 2000 anti-dumping rulings in the US and trade restrictions terminated MMK's exports to the US while the nascent recovery in Southeast Asia again enhanced sales to this region. For its international sales MMK cooperates with several off-takers, among them Conares Trading AG, Noble Resources Ltd., Lebgok AG, China Steel Global Trading Corporation, Technosteel GmbH and others.

**Structure of sales – 1999**



Source: Company Reports

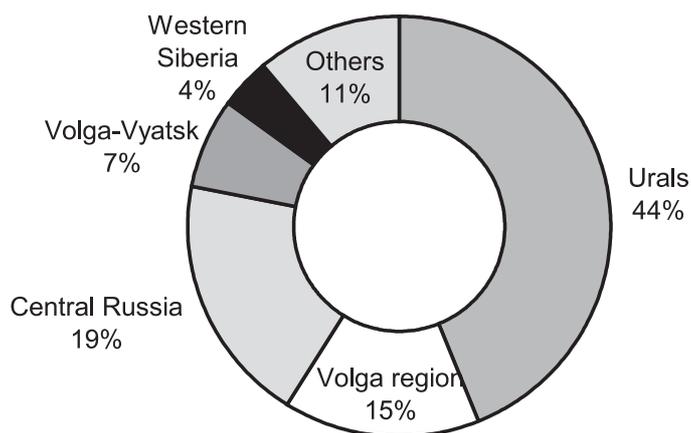
**Structure of sales – 1H2001**



Source: Company Reports

Prices and profits on the domestic markets are more attractive as compared with exports. Price fluctuations are smaller and during the last four years domestic prices did not decline. Whilst export contracts are concluded for six months, domestic sales are based on one-year contracts with price adjustments on a monthly basis. Among MMK's main customers are the pipe plants Volzhsky Tube Works, Seversky Tube Works – ZAO Ural Tube Welding Company, Chelyabinsk Tube Rolling Plant and others.

**Domestic Sales: Geographic destinations in 2000**



Source: Company Reports

**Management Strategy**

At the end of the 1980's MMK started a profound upgrade and modernisation of the full technological cycle and strictly implemented an upgrade and modernisation programme. This programme was

designed to reduce capacity, while at the same time enhancing the quality of its steel products and to create new products and steel grades. Whilst in the first stage MMK put the focus on revamping iron making – among others, 30 open-hearth furnaces out of 35 have been replaced by three converters – the focus in the coming years is shifting to the rolling and finishing cycle.

The pace of MMK's modernisation strategy has largely been dictated by the availability of internally generated funds. In the years 1990–2000 it invested annually funds in a counter-value of between USD 120 to 260 million. Among the main achievements are the commissioning of three oxygen converters, with the last one put on stream in 1999, the installation of a ladle furnace designed to improve steel quality, a pickling line and a cold rolling shop, quality testing and the introduction of a fourth treatment stage – including the downstream production of electrodes and packaging tools.

#### Commissioning of New Major Facilities

Project	Investment/ USD million counter value	Commissioned
Blast furnace (No. 1) . . . . .	45.8	Dec-98
Revamp of furnace KC-1200 (No. 1) . . . . .	0.9	Jul-98
Gas treatment plant (No. 2) . . . . .	137.3	May-98/Dec-99
Oxygen converter (No. 3) . . . . .	32.2	Dec-99
Blast furnace (No. 2) . . . . .	10.7	Jul-00
Rotary furnaces (No. 4, 5) . . . . .	35.6	Dec-00
Manganese-dolomite refractory shop . . . . .	9.8	Dec-00
Ladle furnace . . . . .	16.3	Jan-01
Reconstruction of Sinter (No. 11,12) . . . . .	4.8	Apr-01
Production of electrodes . . . . .	6.8	Jul-01
Reconstruction of blast furnace (No. 7) . . . . .	9.4	Oct-01
Wire rod mill 300–3 "Kocks" . . . . .	22.8	Jun-01
Slitting line No. 8 . . . . .	5.5	Sep-01

Taking into account the current market conditions overseas and in Russia MMK aims to expand its position in the domestic market. In addition to strengthening its position in the Urals industrial region it intends to increase sales to the centres of Russia's European area. Existing and new technologies are being linked with automation for the technological process of all stages of processing.

#### Investment Programme

Projects	Investment/ USD million counter-value	to be commissioned
Continuous hot galvanizing line . . . . .	126.0	2002
Two-stand reversible mill . . . . .	53.0	2002
Reconstruction of cold rolling mill . . . . .	95.6	2005
Reconstruction of Open-hearth s furnaces production (first stage) . . . . .	43.5	2005
Construction of coke battery 11–BIS . . . . .	108.8	2006
Projects for energy savings . . . . .	23.9	2004
Total . . . . .	<u>450.8</u>	

MMK has compiled a long-term development plan covering the period 2001 to 2010 with main stages in 2005, 2007 and 2010. In particular, it provides for the modernisation of the converter shop, the production of low-alloyed steel grades with a decreased content of sulphur for manufacturing large diameter pipes, and IF-steel for high-quality cold rolled steel, the development of production of coated rolled products and reconstruction of the open-hearth production with introduction of continuous casting machines. It also provides for small scale targeted improvements in areas such as the creation of small heating furnaces for re-heating processes for example in electric arc furnaces (EAF) with the purpose of reducing energy consumption and the introduction of ultra-sound testing.

**ОАО Магнитогорск Metallurgical Kombinat and subsidiaries**  
**Consolidated Financial Statements for the year ended 31 December 2000**

**Contents**

	Page
Auditor's Report .....	40
Consolidated Balance Sheet .....	41
Consolidated Income Statement .....	44
Consolidated Statement of Cash Flows .....	44
Consolidated Statement of Changes in Equity .....	45
Notes to the Consolidated Financial Statements .....	45

KPMG Limited  
11 Gogolevsky Boulevard  
Moscow 121019  
Russia

Tel. +7 (095) 937 4477  
Fax +7 (095) 937 4400/99  
www.kpmg.com

## **Auditor's Report**

To the Board of Directors of  
OAO Magnitogorsk Metallurgical Kombinat

We have audited the accompanying consolidated balance sheet of OAO Magnitogorsk Metallurgical Kombinat and its subsidiaries ("the Group") as at 31 December 2000 and the related statements of income and cash flows for the year then ended. The consolidated financial statements, as set out on pages 3 to 36, are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2000, and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards as issued by the International Accounting Standards Committee.

KPMG Limited  
Moscow, Russian Federation  
20 September 2001

**OAO Magnitogorsk Metallurgical  
Kombinat and subsidiaries  
Consolidated balance sheet  
as at 31 December 2000**

**OAO Magnitogorsk Metallurgical  
Consolidated balance sheet**

	Note	2000	1999
		(USD millions)	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment .....	11	1,729	2,304
Intangible assets .....	12	10	8
Investments in associates .....	13	2	1
Other non-current investments .....		9	2
		1,750	2,315
<b>Current assets</b>			
Inventories .....	14	194	146
Trade and other receivables .....	15	175	134
Current investments .....		43	47
Cash and cash equivalents .....	16	46	8
		458	335
<b>Total assets</b> .....		<b>2,208</b>	<b>2,650</b>

The balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 45 to 67 of this Offering Circular.

The consolidated financial statements were approved on 20 September 2001 and signed by:

A. A. Morozov  
First Deputy of General Director

A. G. Odintsov  
Deputy Chief Accountant

**Kombinat and subsidiaries**  
**as at 31 December 2000**

	<u>Note</u>	<u>2000</u>	<u>1999</u>
		(USD millions)	
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b> .....	17		
Issued capital .....		26	26
Reserve for own shares .....		(15)	(11)
Retained earnings .....		<u>1,402</u>	<u>1,740</u>
		1,413	1,755
<b>Minority interest</b> .....		9	3
<b>Non-current liabilities</b>			
Employee benefits .....	18	21	18
Loans and borrowings .....	19	21	–
Deferred tax liabilities .....	20	<u>346</u>	<u>508</u>
		388	526
<b>Current liabilities</b>			
Loans and borrowings .....	19	83	62
Trade and other payables .....	21	<u>315</u>	<u>304</u>
		398	366
<b>Total equity and liabilities</b> .....		<u><u>2,208</u></u>	<u><u>2,650</u></u>

The balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 45 to 67 of this Offering Circular.

### Consolidated income statement for the year ended 31 December 2000

	Note	2000	1999
(USD millions)			
<b>Revenues</b> .....	5	1,713	1,218
Cost of sales .....		(1,176)	(883)
<b>Gross profit</b> .....		<b>537</b>	<b>335</b>
Distribution costs .....		(59)	(31)
Administrative expenses .....	6	(107)	(111)
Taxes, other than on profit .....		(102)	(71)
Impairment adjustments .....	11	(615)	–
Other operating (expenses)/income .....	8	(21)	6
<b>Profit/(loss) from operations</b> .....		<b>(367)</b>	<b>128</b>
Net financing costs .....	9	(28)	(2)
<b>Profit/(loss) before tax</b> .....		<b>(395)</b>	<b>126</b>
Income tax credit .....	10	61	4
<b>Profit/(loss) after tax</b> .....		<b>(334)</b>	<b>130</b>
Minority interest .....		(4)	1
<b>Net profit/(loss) for the year</b> .....		<b>(338)</b>	<b>131</b>

The income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 45 to 67 of this Offering Circular.

### Consolidated statement of cashflows for the year ended 31 December 2000

	2000	1999
(USD millions)		
<b>OPERATING ACTIVITIES</b>		
<b>Profit/(loss) before tax</b> .....	(395)	126
Adjustments for:		
Depreciation and amortisation .....	176	172
Impairment adjustments .....	615	–
Loss on disposal of property, plant and equipment .....	51	11
Loss/(gain) on disposal of investments .....	(15)	45
Interest expense .....	21	9
Decrease in provision for long- and short-term investments .....	2	(57)
<b>Operating profit before changes in working capital</b> .....	<b>455</b>	<b>306</b>
Increase in inventories .....	(48)	(34)
(Increase)/decrease in trade and other receivables .....	(41)	96
Increase/(decrease) in trade and other payables .....	17	(113)
<b>Cash flows from operations before income taxes and interest paid</b> .....	<b>383</b>	<b>255</b>
Income taxes paid .....	(105)	(72)
Interest paid .....	(26)	(9)
<b>Net cash flows from operating activities</b> .....	<b>252</b>	<b>174</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment .....	–	5
Proceeds from disposal of investments .....	5	29
Purchase of property, plant and equipment .....	(264)	(121)
Purchase of intangible assets .....	(5)	(9)
Net decrease in current investments .....	4	(45)
<b>Net cash used in investing activities</b> .....	<b>(260)</b>	<b>(141)</b>

	Note	2000	1999
		(USD millions)	
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings .....		156	80
Repayment of borrowings .....		(106)	(111)
Cash transactions with minorities .....		2	1
Purchase of treasury shares .....		(4)	(8)
Dividends paid .....		(2)	(4)
<b>Net cash used in financing activities .....</b>		<b>46</b>	<b>(42)</b>
<b>Net increase/(decrease) in cash and cash equivalents .....</b>		<b>38</b>	<b>(9)</b>
Cash and cash equivalents at beginning of year .....		8	17
<b>Cash and cash equivalents at end of year .....</b>	16	<b>46</b>	<b>8</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 45 to 67 of this Offering Circular.

#### **Consolidated statement of changes in equity for the year ended 31 December 2000**

	Issued capital	Reserve for own shares	Retained earnings	Total
	(USD millions)			
Balance at 1 January 1999 .....	26	(3)	1,613	1,636
Acquisition of treasury shares .....	-	(8)	-	(8)
Net profit for the year .....	-	-	131	131
Dividends to shareholders .....	-	-	(4)	(4)
<b>Balance at 31 December 1999 .....</b>	<b>26</b>	<b>(11)</b>	<b>1,740</b>	<b>1,755</b>
Acquisition of treasury shares .....	-	(4)	-	(4)
Net loss for the year .....	-	-	(338)	(338)
<b>Balance at 31 December 2000 .....</b>	<b>26</b>	<b>(15)</b>	<b>1,402</b>	<b>1,413</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 45 to 67 of this Offering Circular.

## **1. Background**

### ***(a) Organisation and operations***

The consolidated financial statements of OAO Magnitogorsk Metallurgical Kombinat and subsidiaries ("the Group") comprise the parent company OAO Magnitogorsk Metallurgical Kombinat ("MMK" or "the Parent Company") and its 82 subsidiaries. The Parent Company is a Russian Federation open joint stock (public) company as defined in the Civil Code of the Russian Federation. The head office of the Group is located at:

Ulitsa Kirova 93  
455002 Magnitogorsk  
Russia

The Parent Company was established as a state owned enterprise in 1932. It was privatised on 17 October 1992, as part of the Russian Federation privatisation program, as an open joint stock company. The principal activity of the Group is the production of ferrous metal products at the Parent

Company's plant located in the city of Magnitogorsk in the Chelyabinsk region of the Russian Federation. The products are sold in the Russian Federation and abroad. The subsidiaries are mainly involved in the various sub-processes within the production cycle of the ferrous metal products or in the distribution of the products.

The Group also has various social responsibilities which include the operation and maintenance of sports complexes, holiday and recreational facilities, public housing, kindergartens, restaurants and radio broadcasting. All of these non-core businesses are carried out by subsidiaries which represent an insignificant part of the Group.

MMK is subject to the legislative requirements of the Russian Federal Government and the Chelyabinsk regional authorities.

### ***(b) Russian business environment***

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Group may be significant.

In addition to the conditions affecting the Russian business environment generally, Russian steel producers have been the subject of "anti-dumping" measures by a number of countries in recent years. The result of an anti-dumping action by another country may be a restriction on the levels of Russian steel sold in that country, the imposition of duties on Russian steel sold in that country or a combination of both.

## **2. Basis of preparation**

### ***(a) Statement of compliance***

The Group maintains its accounting records in accordance with the legislative requirements of the countries, in which the individual entities are located (the Russian Federation and Switzerland). The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Accounting Standards ("IAS"), as issued by the International Accounting Standards Committee ("IASC").

### ***(b) Basis of consolidation***

#### *Subsidiaries*

Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The minority interest represents the minorities proportion of the subsidiaries net assets.

#### *Associates*

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date

that significant influence effectively commences until the date that significant influence effectively ceases.

#### *Jointly controlled operations*

Jointly controlled operations are those operations where the Group combines operations, resources and expertise with other enterprises in order to manufacture, market or distribute goods under a joint contractual agreement, but which do not constitute a legal entity. The consolidated financial statements include those assets controlled by the Group, the liabilities and expenses that it incurs, and its share of the net income that it earns from the sale of goods or services by the jointly controlled operations, from the date that joint control effectively commences until the date that joint control effectively ceases.

#### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### ***(c) Historical cost basis***

The consolidated financial statements are prepared on the historical cost basis, except that current investments are stated at their fair value

#### ***(d) Reporting currency***

The national currency of the Russian Federation is the Russian ruble ("RUR"). The reporting currency for the purposes of these consolidated financial statements is the US dollar ("USD"). The US dollar has been used as the reporting currency as management considers that financial information presented in that currency is more useful and better reflects the economic substance of the underlying events and circumstances relevant to the Group's financial position and results.

The Russian economy is a hyperinflationary economy. Had the Russian ruble been used as the reporting currency, the consolidated financial statements would have been required to be restated using general price indices in accordance with the provisions of IAS 29 *Financial Reporting in Hyperinflationary Economies*. Due to a divergence in the movements in the ruble exchange rate and Russian general price indices, the information presented in these consolidated financial statements may differ from the information which would be presented had the Russian ruble been used as the reporting currency with a convenience translation into US dollars.

The Russian ruble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

#### ***(e) Going concern***

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

### 3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied except for the change in accounting policy which is described in note 4.

#### **(a) Foreign currency transactions**

The translation from Russian rubles into US dollars has been made using the following method:

- (i) monetary items are translated at the relevant exchange rates prevailing at the balance sheet dates;
- (ii) non-monetary items are translated at historical exchange rates, and;
- (iii) revenue and expenses (other than depreciation) are translated at the approximate exchange rates at the dates of the transactions.

For the purpose of preparing these consolidated financial statements, the Central Bank of Russia's exchange rates have been used to convert monetary assets and liabilities at the end of year. The exchange rates are as follows:

Date	(RUR per USD)
31 December 1997 .....	5.96
31 December 1998 .....	20.65
31 December 1999 .....	27.00
31 December 2000 .....	28.16

As at 18 September 2001, the Central Bank of Russia's official exchange rate was 29.46 rubles to 1 US dollar.

Foreign exchange differences arising on translation are recognised in the income statement.

#### **Financial statements of foreign operations**

The Group's foreign operation, MMK Steel Trade AG (Switzerland), is considered to be an integral part of the Group's operations. Accordingly, the assets and liabilities of this entity are translated into US dollars as set out in paragraphs (i) – (iii) above. There are no foreign operations which operate in hyperinflationary economies. Foreign exchange differences are recognised in the income statement.

#### **(b) Property, plant and equipment**

##### *Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Furthermore, borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are included in the cost.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

##### *Leased assets*

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, under which the Group does not assume substantially all the risks and rewards of ownership, are recognised in the income statement as incurred.

#### Subsequent expenditure

Expenditure incurred in replacing a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as incurred.

#### *Depreciation*

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives applied to depreciation are consistent with those applied in prior years and are as follows:

Buildings . . . . .	50 years
Plant and equipment . . . . .	10 years
Transportation equipment and vehicles . . . . .	5 years
Fixtures and fittings . . . . .	4 years

#### **(c) Intangible Assets**

##### Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

##### *Patents and trademarks*

Patents and trademarks are carried at historical cost less any accumulated amortisation and any accumulated impairment losses. As control over the assets is achieved through legal rights with a finite period, their useful lives do not exceed the period of the legal rights.

##### *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

##### *Other intangible assets*

Other intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as incurred.

### *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

### *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. These useful lives are generally less than 10 years.

### **(d) Investments**

#### *Other non current investments*

Other non current investments comprise participation in various companies in which the Group does not exercise significant influence. The investments are carried at cost less any amounts written off to recognise other than temporary declines in the value of the investment. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

#### *Current investments*

Investments in marketable securities comprise quoted shares and bonds which are not intended to be held to maturity. The investments are carried at market value. Both realised and unrealised gains and losses are recognised in the income statement.

### **(e) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Provisions are made for slow moving and obsolete inventories.

### **(f) Trade and other receivables**

Trade and other receivables are stated at their cost less provisions. Provisions are made against accounts receivable, based on the expected future cash flows to be received, when their recoverability is considered doubtful.

### **(g) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

### **(h) Impairment**

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any

such indication exists, the assets' recoverable amounts are estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss in respect of investment property is recognised in the same way as a revaluation decrease. All other impairment losses are recognised in the income statement.

#### *Calculation of recoverable amount*

The recoverable amount of the Group's investments in non-current debt securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of the Group's current investments is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss in respect of a held-to-maturity security, trading investment, investment available-for-sale or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### ***(i) Share capital***

#### *Preference share capital*

Preference share capital that is non-redeemable and upon which dividends are discretionary at the option of the directors, is classified as equity.

#### *Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are presented as a deduction from total equity.

#### *Dividends*

Dividends are recognised as a liability in the period to which they relate if proposed or declared before the balance sheet date.

### ***(j) Loans and borrowings***

Loans and borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

### ***(k) Employee benefits***

Short term-employee benefits

The Group is committed to reimburse employees for all expenses incurred in case of injuries at work. These amounts are expensed when they are paid.

Furthermore, the Group pays into the Russian Federation state pension fund an amount of 29% of each employee's wage. These amounts are expensed when they are incurred.

The Group grants 24 to 33 days vacation per year to its employees (weighted average 26).

### ***Defined contribution plans***

The Group's contributions to the defined contribution plans are recognised as expenses in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension and healthcare plans is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate used at the balance sheet date is the equivalent of the yield for high liquid government bonds that have maturity dates which approximate those of the Group's obligations. The yield for government bonds has been used because management are of the opinion that an active market for high quality corporate bonds, which are consistent with the currency and estimated term of the post-employment benefit obligations, does not exist. The calculation is performed annually by management using the projected unit credit method. Any actuarial gain or loss arising from the calculation of the defined benefit obligation is fully recognised in the following year's income statement.

### ***(l) Provisions***

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### ***(m) Trade and other payables***

Trade and other payables are stated at their cost.

#### ***(n) Income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill not deductible for tax purposes
- initial recognition of assets or liabilities that affect neither accounting nor taxable profit
- investments in branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### ***(o) Taxes, other than on profit***

Taxes, other than on profit are taxes and mandatory contributions paid to the government, government controlled bodies or regional authorities that are calculated on a variety of bases, but exclude taxes calculated on profits.

#### ***(p) Revenues***

##### *Goods sold*

Revenue comprises sales of products to customers during the period and excludes Value Added Tax and similar taxes. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

##### *Rental income*

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received.

##### *Interest income*

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

##### *Dividend income*

Dividend income is recognised in the income statement on the date that the dividend is declared.

### *Non-cash transactions*

The Group has a significant level of non-cash transactions as is common with many Russian companies. Non-cash transactions consist of mutual settlements arising from the exchange of goods and services, and transactions which are settled by means of promissory notes. Approximately 10% (1999: 10%) of revenues and 19% (1999: 8%) of purchases in 2000 were received and paid for in the form of non-cash transactions. Mutual settlement transactions are centrally managed by the Group. Prices are usually fixed in contracts with the mutual settlement transactions valued and recorded at the market prices for the goods involved in the transaction. Non-cash sales and purchases are accounted for on an accruals basis in the same manner as traditional cash transactions.

### ***(q) Government grants***

Government grants are recognized as income over the periods necessary to match them with the related costs on a systematic basis. Government grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset. Government grants are only recognised when the conditions attached to them are complied with.

### ***(r) Expenses***

#### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straightline basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

#### *Net financing costs*

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except for borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Accrued interest is included in the balances of short-term and non-current borrowings. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

#### *Environmental costs*

The Group is required to make annual payments to the State Environmental Agency based on the amount of pollution emitted during the year. Environmental and site restoration costs are expensed as incurred.

### ***(s) Related parties***

The following are defined by the Group as its related parties:

- enterprises that are directly or indirectly controlled by the Group;
- investments in associates;
- individuals owning, directly or indirectly, an interest in the Group that gives them significant influence over the Group, and their immediate families;
- directors and officers of the Group and their immediate families; and
- enterprises in which individuals, directors or officers as described above, directly or indirectly, exercise significant influence or have control.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### 4. Change in accounting policy

During the year 2000, the Group adopted IAS 36 *Impairment of Assets*. The adoption of IAS 36 has resulted in the Group recognising an impairment loss of USD 615 million for the year ended 31 December 2000 (refer note 11). The impairment loss has been recognised in the income statement.

#### 5. Revenues

	2000	1999
	(USD millions)	
<b>Revenue by product:</b>		
Rolled steel . . . . .	1,020	657
Tin plated steel . . . . .	191	164
Assorted rolled products . . . . .	208	121
Band . . . . .	96	70
Slabs . . . . .	65	117
Tubes . . . . .	43	–
Other . . . . .	90	89
	<u>1,713</u>	<u>1,218</u>
<b>Percentage of sales by location of customer</b>		
Russia and CIS . . . . .	46%	42%
Asia . . . . .	22%	36%
Middle East . . . . .	17%	12%
Europe . . . . .	11%	8%
Other . . . . .	4%	2%
	<u>100%</u>	<u>100%</u>

#### 6. Administrative expenses

	2000	1999
	(USD millions)	
Services consumed . . . . .	(45)	(23)
Accruals . . . . .	(20)	(12)
Wages, salaries and related social costs . . . . .	(22)	(14)
Service costs for defined benefit plan . . . . .	(2)	(19)
Amortization of intangibles . . . . .	(3)	(1)
Other administrative expenses . . . . .	(15)	(42)
	<u>(107)</u>	<u>(111)</u>

#### 7. Personnel expenses

	2000	1999
	(USD millions)	
Wages and salaries included in cost of sales . . . . .	(105)	(73)
Wages and salaries included in distribution costs . . . . .	(3)	(2)
Wages and salaries included in administrative expenses . . . . .	(22)	(14)
Contributions to defined contribution plan . . . . .	(1)	(1)
Service costs for defined benefit plan . . . . .	(2)	(19)
	<u>(133)</u>	<u>(109)</u>

The Group pays into the Russian Federation state pension fund an amount of 29% of each employee's wage (refer note 3(k) for further details with regard to employee benefits).

The average number of employees during 2000 was 56,000 (1999: 53,000).

## 8. Other operating (expenses)/income

	2000	1999
	(USD millions)	
Net gains on sale of investments . . . . .	13	12
Bad debts and change in accounts receivable provision . . . . .	(6)	(29)
Gains on disposal of property, plant and equipment . . . . .	–	5
Loss on disposal of property, plant and equipment . . . . .	(51)	(16)
Other operating gains . . . . .	23	34
	<u>(21)</u>	<u>6</u>

## 9. Net financing costs

	2000	1999
	(USD millions)	
Interest income . . . . .	3	3
Interest expense . . . . .	(21)	(9)
Translation and Foreign exchange gain/(loss) . . . . .	(10)	4
	<u>(28)</u>	<u>(2)</u>

## 10. Income tax credit

	2000	1999
	(USD millions)	
<i>Current tax expense</i>		
Current year . . . . .	(101)	(72)
<i>Deferred tax expense</i>		
Origination and reversal of temporal differences . . . . .	213	(8)
Change in tax rate . . . . .	(51)	84
	<u>162</u>	<u>76</u>
Total income tax credit in the income statement . . . . .	<u>61</u>	<u>4</u>

The Group's applicable tax rate is the corporate income tax rate of 30% (1999 – 30%) and 35% for measuring deferred taxes (1999 – 30%).

Reconciliation of effective tax rate:

	2000		1999	
	(USD millions)	(%)	(USD millions)	(%)
Profit/(Loss) before tax . . . . .	(395)	100	126	100
Income tax at applicable tax rate . . . . .	(119)	30	38	30
Non-deductible/non-taxable items . . . . .	51	(13)	42	33
Tax exemptions . . . . .	(44)	11	–	–
Impact of change in tax rate . . . . .	51	(13)	(84)	(66)
	<u>(61)</u>	<u>15</u>	<u>(4)</u>	<u>(3)</u>

## 11. Property, plant and equipment

	Land and buildings	Plant and equip- ment	Transport equip- ment and vehicles	Fixtures and fittings	Con- struction in pro- gress	Total
	(USD millions)					
<i>Cost</i>						
At 1 January 2000 . . . . .	6,858	4,913	445	46	123	12,385
Additions . . . . .	5	17	15	4	223	264
Disposals . . . . .	(2)	(282)	(9)	(1)	(43)	(337)
Transfers . . . . .	4	39	9	4	(56)	–
At 31 December 2000 . . . . .	<u>6,865</u>	<u>4,687</u>	<u>460</u>	<u>53</u>	<u>247</u>	<u>12,312</u>
<i>Depreciation and impairment losses</i>						
At 1 January 2000 . . . . .	(5,233)	(4,392)	(421)	(35)	–	(10,081)
Depreciation charge for the year . . . . .	(86)	(79)	(5)	(3)	–	(173)
Impairment adjustments . . .	(145)	(349)	(7)	(13)	(101)	(615)
Disposals . . . . .	–	277	8	1	–	286
Reclassifications . . . . .	(1,095)	1,090	5	–	–	–
At 31 December 2000 . . . . .	<u>(6,559)</u>	<u>(3,453)</u>	<u>(420)</u>	<u>(50)</u>	<u>(101)</u>	<u>(10,583)</u>
<i>Net book value</i>						
<b>At 1 January 2000 . . . . .</b>	<b><u>1,625</u></b>	<b><u>521</u></b>	<b><u>24</u></b>	<b><u>11</u></b>	<b><u>123</u></b>	<b><u>2,304</u></b>
<b>At 31 December 2000 . . . . .</b>	<b><u>306</u></b>	<b><u>1,234</u></b>	<b><u>40</u></b>	<b><u>3</u></b>	<b><u>146</u></b>	<b><u>1,729</u></b>

### Impairment adjustments

Management commissioned an independent appraisal of property, plant and equipment of the Parent Company as at 31 December 2000. In conjunction with the impairment assessment performed for the appraisal, a reclassification was made between categories of property, plant and equipment as set out above. Management then applied the impairment adjustment to each of the categories.

The recoverable amount of property, plant and equipment of the Parent Company was determined to be USD 1,665 million on the basis of the value in use of the assets, therefore resulting in an impairment loss of USD 592 million for the year ended 31 December 2000. The entire MMK production facility in Magnitogorsk was considered to be a cash generating unit. Furthermore, an impairment loss of USD 23 million relating to property, plant and equipment in other group companies has been recorded at this date. A discount rate of 20% per annum was applied by the appraiser.

### Borrowing costs

Borrowing costs of USD 1 million were capitalised in the cost of qualifying assets (1999: USD 1 million).

## 12. Intangible assets

	Licences (USD millions)
<i>Cost</i>	
At 1 January 2000 .....	9
Additions .....	5
At 31 December 2000 .....	<u>14</u>
<i>Amortisation and impairment losses</i>	
At 1 January 2000 .....	(1)
Amortisation charge for the year .....	(3)
At 31 December 2000 .....	<u>(4)</u>
<i>Net book value</i>	
<b>At 1 January 2000</b> .....	<b><u>8</u></b>
<b>At 31 December 2000</b> .....	<b><u>10</u></b>

The amortisation charge for the year is included in "Administrative expenses" (refer note 6).

## 13. Investments in associates

The Group has the following significant investments in associates:

	Country of incor- poration	Owner- ship 31 De- cember 2000	Owner- ship 31 De- cember 1999
AO Magnitogorsky Metizno-Mettalurgichesky Zavod .....	Russia	25%	-

In addition, another 8 investments in associates, which are not material to the Group, either individually or in aggregate, have been aggregated and equity accounted for in these consolidated financial statements.

## 14. Inventories

	2000	1999
	(USD millions)	
Raw materials and consumables .....	142	114
Work in progress .....	43	30
Finished goods and goods for resale .....	30	13
	<u>215</u>	<u>157</u>
Provision for obsolescence .....	(21)	(11)
<b>Inventories stated at net realisable value</b> .....	<b><u>194</u></b>	<b><u>146</u></b>

## 15. Trade and other receivables

	2000	1999
	(USD millions)	
Accounts receivable trade .....	99	81
Receivables from employees .....	8	6
Prepayments .....	35	39
Other receivables .....	51	54
	<u>193</u>	<u>180</u>
Provisions for doubtful debts .....	(18)	(46)
<b>Trade and other receivables at net realisable value</b> .....	<b><u>175</u></b>	<b><u>134</u></b>

## 16. Cash and cash equivalents

As at 31 December 2000 and 1999 cash and cash equivalents comprise local and foreign currency bank balances and letters of credit.

	2000	1999
	(USD millions)	
Foreign currency bank balances .....	36	4
Ruble bank balances .....	8	3
Other balances .....	2	1
	<u>46</u>	<u>8</u>

## 17. Equity

### *Issued capital*

The authorised share capital comprises 6,643,888 ordinary shares (1999: 6,643,888) and 2,214,630 non-redeemable cumulative preference shares (1999: 2,214,630). All shares have a par value of RUR 1.

The issued share capital comprises of the following outstanding shares all with a par value of RUR 1:

	Ordinary shares 2000	Ordinary shares 1999	Prefer- ence shares 2000	Prefer- ence shares 1999
Number of shares .....	<u>6,643,888</u>	<u>6,643,888</u>	<u>2,214,630</u>	<u>2,214,630</u>
<b>On issue at end of year, fully paid .....</b>	<b><u>6,643,888</u></b>	<b><u>6,643,888</u></b>	<b><u>2,214,630</u></b>	<b><u>2,214,630</u></b>

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the annual and general meetings of the Group.

Holders of non-redeemable preference shares receive a minimum dividend of no less than 10% of earnings after tax and other deductions calculated in accordance with Russian legislation. The preference shareholders have no voting rights. All shares rank equally with regard to the Group's residual assets.

### *Reserve for own shares*

The reserve for own shares ("Treasury shares") represents the cost of the Group's shares acquired and held by the companies within the group. At the balance sheet date, the Group companies held the following own shares:

	Ordinary shares 2000	Ordinary shares 1999	Prefer- ence shares 2000	Prefer- ence shares 1999
Number of shares .....	<u>1,975,088</u>	<u>1,975,088</u>	<u>174,831</u>	<u>174,831</u>
ZAO A Kapital .....	180,798	205,626	131,069	145,235
ZAO IK RFC .....	78,651	142,538	411,797	342,100
OOO Mekom .....	-	-	174,831	-
OOO Region .....	<u>2,234,537</u>	<u>2,323,252</u>	<u>892,528</u>	<u>662,166</u>
<b>Total shares held by the Group .....</b>	<b><u>33.6%</u></b>	<b><u>35.0%</u></b>	<b><u>40.3%</u></b>	<b><u>30.0%</u></b>
<b>Percentage of ordinary and preference shares .....</b>				

## Dividends

Dividends payable are restricted to the maximum retained earnings of the Parent Company, determined in accordance with the legislation in the Russian Federation. At 31 December 2000, MMK's funds available for distribution amounted to USD 61 million (1999: USD 186 million).

At balance sheet date the following dividends have been recommended by the directors:

	<u>2000</u>	<u>1999</u>
	(USD millions)	
10 RUR per qualifying ordinary share (1999: 7 RUR) .....	2	1
10 RUR per preference share (1999: 7 RUR) .....	1	1

## 18. Employee benefits

### *Liability for defined benefit obligations*

The Group voluntarily makes charitable contributions to a defined contribution plan. The contributions are made to the independent, non-government pension fund "Sozialnaya Zacshita Staroste" which provides pension benefits for former employees upon retirement. Contributions of 100 rubles (USD 3.55) per retiree are made every month (1999: USD 4.20). Payments made under this defined contribution plan amount to USD 1 million (1999: USD 1 million).

The Group also has a defined benefit plan in favour of employees, who retired prior to 1 April 2000. Pensions from this defined benefit plan are administered by the independent non-government pension fund "BOF Metallurg". Pension payments of 150 rubles (USD 5.33) per retiree are made every month (1999: USD 6.30).

As both plans are administered by independent Funds, there are no plan assets recorded in the Group.

	<u>2000</u>	<u>1999</u>
	(USD millions)	
<b>Liability for defined benefit obligations</b> .....	<b><u>21</u></b>	<b><u>18</u></b>

### **Movements in the net liability recognised in the balance sheet:**

	<u>2000</u>	<u>1999</u>
	(USD millions)	
Net liability at the beginning of the year .....	18	–
Payments made during the year .....	(1)	(1)
Expenses recognised in the income statement .....	<u>4</u>	<u>19</u>
<b>Net liability at the end of the year</b> .....	<b><u>21</u></b>	<b><u>18</u></b>

### **Expenses recognised in the income statement:**

	<u>2000</u>	<u>1999</u>
	(USD millions)	
Interest costs .....	3	–
Current service costs .....	2	19
Foreign exchange gain .....	<u>(1)</u>	<u>–</u>
	<b><u>4</u></b>	<b><u>19</u></b>

Current service costs are recognised in administrative expenses in the income statement (refer note 6).

The principal actuarial assumptions used to calculate the retirement benefit liabilities at the balance sheet date were as follows:

	<u>2000</u>	<u>1999</u>
Discount rate at 31 December .....	18%	18%
Future retirement benefit increases (based on ruble amounts) .....	16%	16%

## 19. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 22.

	<u>2000</u>	<u>1999</u>
	(USD millions)	
<i>Non-current</i>		
Unsecured loans with other companies .....	<u>21</u>	<u>–</u>
<i>Current</i>		
Current portion of secured bank loans .....	13	55
Unsecured loans with other companies .....	48	3
Loans from associates .....	7	–
Unsecured bonds issued .....	5	–
Unsecured bank facility .....	<u>10</u>	<u>4</u>
	<u>83</u>	<u>62</u>

### Terms and debt repayment schedule

	<u>Total</u>
Secured bank loans:	
RUR – fixed at 19% .....	8
USD – fixed at 10% .....	5
Unsecured bond issues:	
MMK bonds 2001 – fixed at 18% (1999: Nil) .....	5
Loans from associates – 10% .....	7
Unsecured loans with other companies	
USD – fixed at 3% .....	35
Other currencies – various interest rates .....	34
Unsecured bank facility:	
RUR – fixed at 15% .....	1
RUR – not fixed .....	2
USD-fixed at 10.75% .....	7
	<u>104</u>

The current debt is repayable within 1 year from the balance sheet date. The non-current debt is repayable within 4 years from the balance sheet date.

The bank loans are secured by inventory and machinery valued at USD 31 million.

The Group has no subordinated debt and no debt convertible into equity.

## 20. Deferred tax liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2000	1999	2000	1999	2000	1999
	(USD millions)					
Property, plant and equipment . . . .	–	–	(379)	(541)	(379)	(541)
Investments . . . . .	–	3	(5)	–	(5)	3
Inventories . . . . .	46	16	–	–	46	16
Receivables . . . . .	–	2	(23)	–	(23)	2
Other items . . . . .	15	12	–	–	15	12
	61	33	(407)	(541)	(346)	(508)
Set off . . . . .	4	9	(4)	(9)	–	–
<b>Net tax assets/liabilities) . . . . .</b>	<b>65</b>	<b>42</b>	<b>(411)</b>	<b>(550)</b>	<b>(346)</b>	<b>(508)</b>

Movement in temporary differences during the year

	31 December 1999	Recognised in income	31 December 2000
	(USD millions)		
Property, plant and equipment . . . . .	(541)	162	(379)
Investments . . . . .	3	(8)	(5)
Inventories . . . . .	16	30	46
Receivables . . . . .	2	(25)	(23)
Other items . . . . .	12	3	15
	(508)	162	(346)

## 21. Trade and other payables

	2000	1999
	(USD millions)	
Accounts payable – trade . . . . .	173	109
Advances from customers . . . . .	37	44
Accruals . . . . .	21	9
Taxes payable . . . . .	48	49
Other payables and accrued expenses . . . . .	36	91
Dividends payable . . . . .	–	2
	315	304

## 22. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates.

### *Credit risk*

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are per-

formed on all customers requiring credit over a certain amount. The majority of sales are made on a prepayment basis.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

#### *Interest rate risk*

The Group incurs interest rate risk primarily on loans and borrowings. The interest rates and terms of repayment of loans are disclosed in note 19 of these consolidated financial statements. The Group borrows on both a fixed and floating interest rate basis.

#### *Foreign currency risk*

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than US dollars. The currency giving rise to this risk is primarily Russian rubles.

### **23. Segmental information**

The Group's primary reportable basis for segment reporting is by business and its secondary reportable basis for segment reporting is by geographical location of customer.

The Group predominantly produces iron and steel products. The revenues from the sale of these products constitute greater than 95% of total revenues. An analysis of sales by product and location of customers is included in note 5. Geographically, all significant assets, production and management/administrative facilities are located in Magnitogorsk.

### **24. Related parties**

#### *Subsidiary companies*

Details of investments in significant subsidiaries are disclosed in note 25 below.

#### *Associate companies*

OAO Magnitogorsky Metizno-Mettalurgichesky Zavod ("MMMZ") purchased goods from the Group totalling USD 9.9 million for the year ended 31 December 2000 (1999: USD 11.4 million) and as at the balance sheet date owed the Group USD 438 thousand (1999: USD 345 thousand). Transactions with MMMZ occur in the ordinary course of business and are concluded on the same terms and conditions as applied to non-related entities.

There were no other material transactions with associated companies.

#### *Joint operations*

The Group is involved in a joint operation with OOO Profit. Under the joint operation agreement the Group receives 50% of the joint operation's net income. During 2000, the Group provided services to the joint operation for the conversion of the scrap metal to finished product totalling USD 36.7 million. (1999: USD 21.1 million). The conversion costs were charged to the joint operation at cost plus 1%. The scrap metal is provided to the joint operation by OOO Profit at cost plus 1%. Amounts owing to the Group under the joint operation agreement are settled by shipments of scrap metal from the joint operation. At 31 December 2000, the joint operation owed the Group USD 3.6 million (1999: USD 3.8 million).

OOO Profit sold scrap metal to the Group totalling USD 55.7 million during the year (1999: USD 10.3 million) and at the balance sheet date the Group owed OOO Profit USD 131 thousand (1999: USD 1.2 million).

#### *Directors interests*

Directors of the Group and their immediate families control the following percentage of voting shares in the Parent Company and its subsidiaries:

	<u>2000</u>	<u>1999</u>
	%	%
Parent Company . . . . .	0.34	0.35
ZAO Agrokomples . . . . .	8.00	–
ZAO Promshilstroy . . . . .	0.22	0.22
OAOMSTOZ . . . . .	0.40	0.01
OOO Dom . . . . .	0.03	–
OOO Minimax . . . . .	40.00	40.00

At 31 December 2000, directors of the Group held 18.43% of the shares in OAO Magnitogorsky Metizno-Mettalurgiechesky Zavod, an associate company of the Group.

#### *Directors remuneration*

Salaries and bonuses paid or payable to the directors of the Parent Company and its significant subsidiaries totalled USD 567,000 for the year ended 31 December 2000 (1999: USD 507,000).

No loans were made to the directors of the Group in 2000 and 1999.

#### *Other related parties*

Directors and their immediate families control 28.35% (1999: 28.35%) of the voting shares of OAO Kredit Ural Bank. The bank provides financial services to the Parent Company and to the majority of its subsidiaries within the Group. These financial services include loans, overdrafts, customer and supplier settlements and employee payroll services. These transactions occur in the ordinary course of business and are concluded on the same terms and conditions as applied to non-related entities.

#### *Transactions with the Government*

The Government of the Russian Federation owned 23.8% of the voting shares of the Group as at 31 December 2000 (1999: 23.8%). The government also owns, controls, or has influence over the operations of many other significant companies and enterprises in the Russian Federation and has a significant influence on the national economy.

The Group's activities are significantly linked to companies owned or controlled by the government. The government is also a customer and a supplier of the Group through various affiliated and related organisations. The Group has a significant influence in the local community and with local and regional government authorities.

Management consider such trading relationships to be usual in conducting business in the Russian Federation and believe that these relationships will continue for the foreseeable future. Information with regard to these transactions with the local, regional and national governments is not disclosed as related party transactions.

## 25. Subsidiary companies

The following significant subsidiaries are included in the consolidated financial statements:

	Country of incor- poration	Ownership 31 December 2000	Ownership 31 December 1999
(in %)			
MMK Steel Trade AG	Switzerland	100	–
ZAO Avtotransportnoye Upravleniye (ATU)	Russia	100	100
ZAO Magma	Russia	100	100
ZAO Metalloshlak	Russia	100	100
ZAO Metallurgremont-1	Russia	100	100
ZAO Metallurgremont-2	Russia	100	100
ZAO Metallurgremont-3	Russia	100	100
ZAO Metallurgremont-4	Russia	100	100
ZAO RMK	Russia	100	100
ZAO Roztorg	Russia	100	100
ZAO Emal	Russia	100	100
ZAO Ogneupor	Russia	100	100
ZAO Elektroremont	Russia	100	100
ZAO Kombinat Pitania and Torgovli	Russia	100	100
ZAO Metalurgspetstroyremont	Russia	100	100
ZAO IK RFC	Russia	100	100
OOO Region	Russia	100	100
ZAO Stalprokatny Zavod	Russia	100	99
OOO Mekom	Russia	100	100
ZAO A Kapital	Russia	100	70
ZAO Mehano Remontny Komplex	Russia	100	–
ZAO Stroitelny Komplex	Russia	100	–
ZAO Meharnoremont	Russia	100	–
ZAO Torgovlya and PPP	Russia	100	–
ZAO Komplex Glubokoy Pererabotki	Russia	96	–
ZAO Mars	Russia	95	95
ZAO Promgrazhdanstroy	Russia	95	–
ZAO Stroitelny Fond	Russia	99	–
OOO Press-5P	Russia	51	51
ZAO Promzhilstroy MMK	Russia	77	77
OOO Metallosnabzhenie	Russia	70	–
OOO Minimax	Russia	60	60
OAo MCOZ	Russia	56	56
OOO Interlux Ltd.	Russia	51	51
ZAO Uralskaya Trubosvarochnaya Kompaniya	Russia	51	51
ZAO Glubokaya Pererabotka	Russia	51	–

In addition, another 46 subsidiaries, which are not material to the Group, either individually or in aggregate, have been aggregated and included in these consolidated financial statements.

## 26. Operating leases

### *Leases as lessee*

Non cancellable operating lease rentals are payable as follows:

	<u>2000</u>	<u>1999</u>
	(USD millions)	
Less than one year . . . . .	3	2
Between one and five years . . . . .	13	9
More than five years . . . . .	<u>7</u>	<u>11</u>
	<u><b>23</b></u>	<u><b>22</b></u>

The Group leases buildings, production equipment and vehicles.

During the current year, USD 2 million was recognised as an expense in the income statement in respect of operating leases (1999: USD 1 million).

## 27. Commitments

### *Capital commitments*

The Group is committed to capital expenditure for the year ending 31 December 2001 of approximately USD 152 million (year ended 31 December 2000: USD 111 million).

### *Social commitments*

The Group makes contributions to mandatory and voluntary social programs, the maintenance of local the infrastructure, the welfare of their employees and the welfare of the local community in general. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to the local authorities; however, management expects that the Group will continue to fund these social programs for the foreseeable future. These costs are recognised in the income statement as incurred.

## 28. Contingencies

### *Insurance*

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### *Environmental content liabilities*

The Group companies and their predecessor entities, have operated in the Russian Federation for many years and at some of the operating entities, environmental problems have developed. Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are provided for over the estimated remaining lives of the related assets or recognized immediately depending on their nature. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

#### *Claims and litigation*

Unresolved claims and litigation against the Group as at 31 December 2000 amount to USD 15 million (1999: USD 10 million). These include a large number of small claims and litigation relating to sales made to domestic customers and purchases of goods and services from suppliers. Based on experience in resolving such matters, management believes that these will be resolved without significant loss to the Group and, accordingly, no provision has been made for these unresolved claims and litigations.

#### *Taxation contingencies*

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively, and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among the various taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Russia, which could be substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

### **29. Events subsequent to the balance sheet date**

Since 31 December 2000, MMK has made seven bond issues (\*) with a total value of USD 45 million. An interest rate of 18% is to be applied to the bonds, which have a maturity date 370 days from the date of issue.

During February 2001, Sberbank provided MMK with a USD 54 million loan (\*). Interest of 23% per annum is to be applied to the loan which is to be repaid by February 2006. The loan is secured by fixed assets, inventories and shares with a total value of USD 408 million.

In terms of tax law enacted on 6 August 2001, the corporate profit tax rate will reduce from 35% to 24% with effect from 1 January 2002. As shown in note 10, the deferred tax of the Group has been calculated at a rate of 35%. The impact of the change in the deferred tax rate on the opening balance as at 1 January 2001 will reduce the deferred tax liability by USD 109 million.

There were no other events which occurred after the balance sheet date that would have a material effect on the consolidated financial statements for the year ended 31 December 2000.

---

(\*) Denominated in Rouble.

## Recent Developments and Outlook

For 2001 MMK expects a return to profitability after all regulatory write-offs are completed. Management estimates that in 2001 sales have increased by 0.5% to 1% vs. 2000 with respect to the market situation overseas. Subsequently, compared with 2000 the net profit (before impairment adjustments) at year end 2001 is expected to be lower but sufficient for funding the projected investments. Expected net profit of approximately USD 60–70 million for the year 2001 should confirm this assumption.

MMK is selling its products for cash. There has not been a single barter deal since 1999. However, some municipal authorities are lagging behind the payment schedule.

The steel plant does not practise any currency hedging. By establishing convenient payment profiles it manages to reduce risks. Thus, its earnings denominated in hard currency exceed the respective payment obligations: in 2000 34.7% of total revenues were received in USD while USD-denominated expenses amounted to 12.4% of total expenses.

The profitability of the different products varies according to pricing and taxing differences although the cost base is equal. The operating margins for commodity products range between 20% (billets and slabs, and long rolled products), and 50% (flat products). Management does not see any downside threat to the margins in 2001.

MMK's profitability has been markedly enhanced by sustained cost cutting actions. Since it has to deal with the disadvantage of its geographical location, generating additional transportation and winter preparation costs as compared with its main competitors, it is pursuing a stringent cost cutting strategy. Thanks to a diversified supplier base and its own electricity production it has achieved major savings in recent years. While in 1996 the costs of goods sold amounted to 97% of revenues the ratio declined to 72% in 2000. Labour costs amounted to 7.8% of total revenues and is expected to remain relatively low. The company does not have pension liabilities for its work force but is preparing for the pension reform expected in 2002 by building up adequate funds.

The main threat derives from some transportation tariffs such as by railway network and pipes. Seeking ways to reduce costs, with the purpose of counterweighting increasing railway transportation MMK, has created its own operator – "MMK-Trans" which represents a closed transportation system for the plant's sales and shipments, ensuring lower tariffs. With respect to gas it is striving to reduce natural gas purchases by increasing its own gas generation (coke gas, furnaces' gas) or by switching to cheaper resources depending on their prices where possible.

At the end of 2000 MMK was leveraged at below 3%. In recent years MMK made only small borrowings for day-to-day operations with prompt redemption. MMK became active in the domestic corporate bond market issuing several series of rouble-denominated short-term bonds. With declining inflation it intends to shift to medium- and longer-term bonds. In February 2001 it received its first longer-term loan from Sberbank amounting to the equivalent of USD 54 million.

MMK follows a conservative funding strategy for its investments. In recent years it financed investments by making use of its operating cash flow. When acquiring access to borrowings after 2000, it stipulated some funding principles: firstly, the debt to equity ratio is limited at 12%, and secondly, the company has to contribute 50% of the cost to any external financing. The very low leverage of MMK of less than 3% is, however, set to increase during the two years subsequent to the projected large investments. After this period depreciation should exceed the capital expenditure.

In November 2001 MMK Group acquired a share of 25.73% of the voting stock of the Joint Stock Company Kuzbassugol for a total consideration in the counter-value of USD 62.3 million.

## MMK

### Income Statement for the nine months ended 30 September 2001 and for the year ended 31 December 2000 – unaudited and unconsolidated –

	30 Septem- ber 2001	31 Decem- ber 2000
	(USD million)	
<b>Revenues</b> .....	1,236	1,659
Cost of sales .....	(992)	(1,184)
<b>Gross profit</b> .....	244	475
Distribution costs .....	(17)	(21)
Administrative expenses .....	(110)	(97)
Taxes, other than on profit .....	–	(92)
Impairment adjustments .....	–	(592)
Other operating (expenses)/income .....	(45)	(17)
<b>Profit/(loss) from operations</b> .....	72	(344)
Net financing costs .....	(33)	(24)
<b>Profit/(loss) before tax</b> .....	39	(368)
Income tax credit .....	6	66
<b>Net profit/(loss) for the year</b> .....	45	(302)

## MMK

### Balance Sheet for the nine months ended 30 September 2001 and for the year ended 31 December 2000 – unaudited and unconsolidated –

	30 Septem- ber 2001	31 Decem- ber 2000
	(USD million)	
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment .....	1,664	1,665
Intangible assets .....	7	10
Investments in unconsolidated subsidiaries .....	38	72
Investments in associates .....	2	4
Other non-current investments .....	5	8
	1,716	1,759
<b>Current assets</b>		
Inventories .....	172	145
Trade and other receivables .....	254	109
Current investments .....	26	33
Cash and cash equivalents .....	88	14
	540	301
<b>Total assets</b> .....	2,256	2,060
 <b>Equity and liabilities</b>		
<b>Equity</b>		
Issued capital .....	26	26
Retained earnings .....	1,489	1,446
	1,515	1,472
<b>Non-current liabilities</b>		
Deferred tax liabilities .....	309	348
Trade and other payables .....	56	–
	365	348
<b>Current liabilities</b>		
Loans and borrowings .....	113	39
Trade and other payables .....	263	201
	376	240
<b>Total equity and liabilities</b> .....	2,256	2,060

## MMK

### Statement of Cash Flows for the nine months ended 30 September 2001 and for the year ended 31 December 2000 – unaudited and unconsolidated –

	30 Septem- ber 2001	31 Decem- ber 2000
	(USD million)	
<b>OPERATING ACTIVITIES</b>		
<b>Net profit/(loss) for the year</b> .....	45	(302)
Adjustments for:		
Depreciation and amortisation .....	136	171
Increase in impairment provision for fixed assets .....	–	592
Loss/(gain) on disposal of property, plan and equipment .....	–	70
Loss on disposal of investments .....	–	86
Interest expense .....	7	15
Income tax credit .....	(6)	(66)
Decrease in provision for long-term and short-term investments .....	–	(74)
Other non-cash items .....	–	–
<b>Operating profit before changes in working capital and provisions</b> .....	182	492
Increase in inventories .....	(27)	(15)
Decrease in trade and other receivables .....	(145)	10
Decrease in trade and other payables and accruals .....	74	(50)
<b>Cash flows from operations before income taxes and interest paid</b> .....	84	437
Income taxes paid .....	(34)	(99)
Interest paid .....	–	(23)
<b>Net cash flows from operating activities</b> .....	50	315
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plan and equipment .....	–	–
Proceeds from disposal of investments .....	29	30
Purchase of investments .....	(4)	(81)
Purchase of property, plan and equipment .....	(135)	(254)
Purchase of intangible assets .....	–	(5)
Net decrease in current investments .....	7	15
<b>Net cash used in investing activities</b> .....	(103)	(295)
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings .....	242	90
Repayment of borrowings .....	(113)	(101)
Dividends paid .....	(2)	(2)
<b>Net cash used in financing activities</b> .....	127	(13)
<b>Net increase/(decrease) in cash and cash equivalents</b> .....	74	7
Cash and cash equivalents at beginning of year .....	14	7
<b>Cash and cash equivalents at end of year</b> .....	88	14

**Issuer**

**MMK Finance S.A.**  
38-40 rue Sainte Zithe  
L-2763 Luxembourg

**Guarantor**

**Open Joint Stock Company Magnitogorsk Iron and Steel Works**  
Ulitsa Kirova 93  
45502 Magnitogorsk  
Russia

**Legal Advisers**

*To the Managers as to German Law*

**Hengeler Mueller**  
Bockenheimer Landstrasse 51  
D-60325 Frankfurt am Main

*To the Managers as to Russian Law*

**Clifford Chance Puender**  
Ul. Sadovaya – Samotechnaya 24/27  
103051 Moscow  
Russia

*To the Guarantor as to Russian Law*

**Andrey Goroditsky & Partners**  
Ul. Znamenka 13  
121019 Moscow  
Russia

*To the Managers as to Luxembourg Law*

**Linklaters & Loesch**  
4, rue Carlo Hemmer  
L-1734 Luxembourg

**Listing Agent**

**Deutsche Bank Luxembourg S.A.**  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg

**Principal Paying Agent**

**Deutsche Bank Aktiengesellschaft**  
Grosse Gallusstrasse 10-14  
D-60272 Frankfurt am Main

**Paying Agent**

**Deutsche Bank Luxembourg S.A.**  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg