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MMK and Belon – Cooperation and Development Prospects





Purpose of alliance



CREATION OF A STRATEGIC ALLIANCE FOR FURTHER DYNAMIC DEVELOPMENT OF MMK AND BELON

TIMELY DECISION ON STRATEGIC ALLIANCE

- ✓ Mutual hedging against market risks
- ✓ Enhanced competitive ability of both parties
- ✓ Predictable levels of sales and purchasing for both parties
- ✓ Guaranteed efficient implementation of long-term, capital-intensive decisions

VIABILITY OF THE STRATEGIC ALLIANCE

is secured by

- close individual **strategies**
- mutual economic **feasibility**
- compatible corporate **values**

is guaranteed by

- **Parity company** shareholders' agreement
- Recognized **authority** of both parties



Mutual interests guarantee



- Mutual interests are guaranteed by major beneficiaries' agreement;
- **Parity (50% by 50%)** Cyprus-based company Onarbay is set up, which owns 82.6% of Belon shares
- Belon's Board of Directors to include:
 - 2 MMK representatives
 - 2 independent directors
 - 3 representatives of SAPWOOD INVESTMENTS LIMITED
- Operational management to remain the function of the existing management headed by Mr. Dobrov
- Transaction amount of USD **230,4 mln** to create a **parity company**
- MMK representative to take the position of Belon's Deputy Director for Finances



Coincidence of major strategic goals



MMK:

pig iron production growth **20%**

Belon:

coking coal concentrate production growth **70%**

Based on companies' estimates. 2007 production vs 2012 production

MMK coking coal requirement by 2012:

Coking coal concentrate – 6 mln tons

(after implementation of “coke-saving” technologies)

PCI technology coal – 1,1 mln tons

(after implementation of PCI technology)

Belon production coking coal requirement by 2012:

Coking coal concentrate production – 5.1 mln tons

(after modernization programme and new objects construction)

Washed steam coal – 5,0 mln tons

(including coal for PCI technology – 2.5 mln tons)



Conclusion:

MMK will have the ability to cover up to 60% of its requirement for coking coal and PCI-technology coal.

Belon secures sales of up to 50% of its raw materials produced



Partnership Expansion Prospects



1. Expansion of Coking Coal Production

- Acquisition of existing coking coal producing plants
- Construction of new plants to use Belon's reserves
- Development of production under MMK's existing licenses

2. Creation of Power Generation Capacity

- Creation of generating capacity with the use of clean steam coals to cover the growing power requirement of both parties

3. Gradual Creation of a Modern Coal Mining Company on Belon's Basis

- Production and processing of coking coal and other minerals in the Kuzbass area

4. Steel Trade Development