This Annual Report has been prepared in accordance with the requirements and elements of the GRI System. OJSC MMK declares Level C in the application of the GRI guidelines (G3)
TABLE OF CONTENTS

1 Address of the Chairman of the Board of Directors 4
2 The Company’s Mission and Strategic Goals 6
3 The Company’s Profile 8
4 Main Events of the 2006 18
5 Market Review 24
6 Sales Activities 28
7 Supplies of Materials 38
8 Financial Overview 42
9 Investments 50
10 Risk Management 60
11 Quality Management System 64
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
<th>Page Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Stakeholder Engagement Process</td>
<td>68</td>
</tr>
<tr>
<td>13</td>
<td>Personnel Policy</td>
<td>72</td>
</tr>
<tr>
<td>14</td>
<td>Industrial and Occupational Safety</td>
<td>78</td>
</tr>
<tr>
<td>15</td>
<td>Social Responsibility</td>
<td>80</td>
</tr>
<tr>
<td>16</td>
<td>Environmental Protection</td>
<td>86</td>
</tr>
<tr>
<td>17</td>
<td>Intellectual Property, Research and Development</td>
<td>90</td>
</tr>
<tr>
<td>18</td>
<td>Information Technologies</td>
<td>92</td>
</tr>
<tr>
<td>19</td>
<td>Stock Exchange</td>
<td>96</td>
</tr>
<tr>
<td>20</td>
<td>Corporate Governance</td>
<td>98</td>
</tr>
<tr>
<td>21</td>
<td>General Information on OJSC MMK</td>
<td>110</td>
</tr>
<tr>
<td>22</td>
<td>Independent Auditors’ Report</td>
<td>114</td>
</tr>
</tbody>
</table>
## DYNAMICS OF THE MMK GROUP KEY RESULTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Measuring unit</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output of steel products</td>
<td>'000 tonnes</td>
<td>10,137</td>
<td>10,201</td>
<td>11,346</td>
</tr>
<tr>
<td>Sales</td>
<td>USD million</td>
<td>4,829</td>
<td>5,380</td>
<td>6,424</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>USD million</td>
<td>3,291</td>
<td>4,057</td>
<td>4,659</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>USD million</td>
<td>1,538</td>
<td>1,323</td>
<td>1,765</td>
</tr>
<tr>
<td>Sales margin</td>
<td></td>
<td>32%</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>Net profit</td>
<td>USD million</td>
<td>1,232</td>
<td>947</td>
<td>1,426</td>
</tr>
<tr>
<td>ROCE</td>
<td></td>
<td>31%</td>
<td>31%</td>
<td>35%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>USD million</td>
<td>1,735</td>
<td>1,511</td>
<td>2,005</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td></td>
<td>36%</td>
<td>28%</td>
<td>31%</td>
</tr>
</tbody>
</table>
ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders!
Dear Colleagues!

Over the recent years the world steel sector has gained a steady forward momentum. In 2006 the global consumption of steel grew by 7.6% against 2005. These trends have also impacted the activities of the MMK Group.

Last year our Company once again demonstrated its determination to succeed in the implementation of both tactic and strategic tasks. According to the 2006 results MMK has maintained its leader’s position among the Russian steel producers. It accounted for 17% of crude steel smelted nation-wide, while the output of commercial steel products covered nearly a fifth of domestic demand.

The results of our production and financial operations clearly show that the set targets have been met. Last year MMK produced 10.7 million tonnes of sinter, 9.7 million tonnes of pig iron and 12.5 million tonnes of steel. Production of commercial goods reached the level of 11.346 million tonnes.

Compared to 2005 MMK Group’s sales proceeds grew by 19.4% to USD 6.424 bn while net profit increased by 52.3% reaching USD 1,426 bn.

Domestic sales of steel products increased almost by 1 million tonnes surpassing the 6 million mark for the first time in recent years. We have been able to build up our domestic sales, in the first place, thanks to a more than 1.5-fold increase in shipments of long products. The share of exports in the total sales of MMK steel products has gone down to 46% according to the 2006 results.

These high results have been achieved thanks to the implementation of the long-term investment program aimed at increasing output of value added products, diversification of the product mix, quality improvement, costs optimization, and reduction of hazardous impact on the environment. Successful implementation of this program over the last decade has allowed to almost double the production of commercial goods, from 6.5 to 11.3 million tonnes, significantly modernize the production assets, and lower consumption of raw materials.

In 2006 the total investments (including investments in intangible assets) of the MMK Group exceeded USD 700 million. Capital construction encompassed the entire production chain of MMK. Last year saw the completion of one of MMK’s major projects, the creation of a modernized complex for production of long products. Commissioned earlier in 2006 and brought up to operational capacity last October was the 170 mm wire rod mill. The electric arc furnace shop saw two EAFs, a billet caster and a furnace ladle brought on stream.

In 2006 contracts were signed for the construction of a new hot dip galvanizing line and a 2,000 mm plate mill. Once commissioned, these projects will enable MMK to increase sales of much-needed products to industries with a high investment potential.

As part of the strategic policy of corporate integration, our Company is developing and implementing projects geared to securing supplies of key raw materials and strengthening MMK’s positions on the market.

In late 2006 MMK won an auction for the right to develop the Prioskolskoye iron ore deposit in the Belgorod Region. The implementation of this project will contribute to ensuring the Company’s long-term self-sufficiency in terms of raw materials supplies.

The Company’s operations are in full conformity with market criteria. MMK’s shares are being quoted on the Russian stock exchanges, and in the summer of 2006 went through the listing procedure.

Last year the MMK Group continued the implementation of the Environmental Program scheduled for 2006-2015 aimed at minimizing technological impact on the environment. As part of the Program, 67 projects were carried out in 2006 which allowed to reduce emissions and discharges of pollutants into the environment.

2006 also saw continued implementation of the Group’s social programs geared to expand the use of social benefits by our employees and provide aid to the local community.

In February of 2007 MMK celebrated its 75th anniversary. We approached this date with good results and all the necessary conditions for further growth.

In the anniversary year the Company plans to produce and sell 12.4 million tonnes of commercial products. The guideline for our sales policy will be the strengthening of our positions on the domestic market, further perfection of the sales system and maintaining our status as one of the major suppliers of steel products for largest industrial consumers.

I would like to express my heartfelt gratitude to all the employees of the MMK Group and our partners for their efficient and highly professional work in 2006. We have further plans and face new challenges. I am confident they will be met.

Victor F.Rashnikov,
Chairman of the OJSC MMK
Board of Directors
THE COMPANY’S MISSION AND STRATEGIC GOALS
OJSC MMK’s Mission
The Company’s mission consists in production and sale of high quality steel products meeting the requirements of our customers for the purpose of gaining sufficient profit to ensure the Company’s development to the level of one of the global leaders and ability to implement social policies on a reasonable scale.

The principal strategic goal of OJSC MMK is to maintain its long-term competitive position on the global rolled steel markets.
To attain this goal OJSC MMK is pursuing the following strategies:
1. Focus on the Russian and CIS markets
OJSC MMK intends to build up the share of its output sold on the Russian and CIS markets in order to fully benefit from such advantages of these markets as the high level of prices and stable demand growth.

On the international markets OJSC MMK focuses on the use of strategic opportunities in the regions with fast growing economies, such as Asia and the Middle East.

2. Building up the volume and proportion of value added steel products
OJSC MMK intends to continue increasing the level of production of value added products, such as tinplate, cold rolled strip, galvanized and colour coated strip, at the same time reducing sales of commercial semi-finished products.

Technological development and modernization of the existing production facilities are a priority for OJSC MMK which will be implemented through investments in promising research and growth opportunities. Furthermore, the Company intends to invest in power saving projects and programs aimed at minimizing negative impacts on the environment.

3. Securing supplies of raw materials and power
OJSC MMK continues to take measures to diversify suppliers of key raw materials, in particular, iron ore materials and coking coal concentrate, in order to mitigate dependence on suppliers and ensure flexibility with respect to supplies sources.

The Company intends, in the short term, to keep targeting 90% as the proportion of required power to be generated by its captive power facilities, and, in the longer term, to become completely self-sufficient in terms of power supplies.

4. Attaining high standards of corporate ethics and governance
OJSC MMK intends to continue the adoption of corporate governance principles in accordance with international standards. Currently MMK has adopted and is using the following systems:
• environmental management system in conformity with ISO 14001-2004;
• occupational health and safety system in conformity with OHSAS 18001:1999.

The following projects are in the process of implementation:
• a project for adopting a system of internal controls for the preparation of financial reports in accordance with the Sarbanes-Oxley Act;
• a project for adopting a comprehensive risks management system.

Special attention is being paid to improving the corporate social climate through regular increases of wages and salaries and implementation of an efficient system of social benefits and guarantees.
THE COMPANY’S PROFILE
At a meeting between the President of the Russian Federation Vladimir V. Putin and the Chairman of the OJSC MMK Board of Directors Victor F. Rashnikov on January 30, 2007, the Head of State pointed out:

“Lately the policy pursued by the management and the shareholders of the Company, has yielded positive results.”

Official website of the President of the Russian Federation www.kremlin.ru

Piotr I. Sumin, Governor of the Chelyabinsk Region:

“It is always with pleasure that I visit Magnitogorsk, and it never stops giving me pleasant surprises. The issues of MMK’s technological modernization and development of the social sphere are being addressed on a massive scale, with an eye to benefiting both the Company’s employees and the rest of the city’s population. Magnitka has ambitious plans. It has all the makings of becoming, in a few year’s time, the largest single site industrial enterprise in Europe”.

Piotr M. Latyshev, the RF President’s Representative in the Urals Federal District:
“The Company keeps building up its production and HR potential, adopting innovative technologies, and strengthening its positions on the Russian and international markets with every year. Today MMK is rightly considered a paragon of a modern and dynamic industrial corporation combining economic efficiency and social responsibility.”
From the congratulatory address on the occasion of the Steel-Maker’s Day, “Magnitogorsky Metall”, 15.07.2006

Rudolf Giuliani, Head of Giuliani Partners LLC, former mayor of New York:
“The steel mill staggered me, I didn’t expect it would prove to be so huge. One cannot say it’s just one mill, it is actually a lot of mills on a giant site. I believe its products would be enough to satisfy the needs not of one but of several countries.”

THE COMPANY’S POSITION IN THE SECTOR

The Magnitogorsk’s Iron and Steel Works Open Joint Stock Company is one of the leading Russian steel mills and ranks among the top twenty of the world’s largest steel producers (according to the IISI data). In 2006, in terms of the technological level and financial performance of its steel-making and rolling divisions, the Company moved still further to the forefront not only of the Russian, but the global steel sector. The OJSC MMK is the leader among Russian steel-making companies in terms of production volumes on a single site. The Company turns out the broadest product mix in Russia. The proportion of higher value added products in the Company’s product mix is one of the highest in the Russian sector. In 2006 MMK’s commercial output was 11.346 million tonnes, an increase of 11.2% on 2005’s figure of 10.201 million tonnes. The MMK Group’s 2006 sales amounted to USD 6,424 million, with a net profit of USD 1,426 million and EBITDA of 2,005 million.
Guennadi S. Senichev, Vice President for Operations, Executive Director of OJSC MMK, MMK Managing Company, member of the OJSC Board of Directors:

“With the interests of our customers in mind, we try to make maximum use of our potential, improving our technologies and building a team of highly professional specialists and skilled workers. All this is subordinated to attaining our strategic objectives of creating an up-to-date steel making complex and raising the competitive quality of our products.”

Comparison of the Russian Steel Sector’s Companies in Terms of Rolled Steel Production in 2006*

<table>
<thead>
<tr>
<th>Description</th>
<th>Level of production, ’000 tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magnitogorsk Iron and Steel Works OJSC</td>
<td>11,346</td>
</tr>
<tr>
<td>OJSC Severstal</td>
<td>10,061</td>
</tr>
<tr>
<td>OJSC Novolipetsk Steel Mill</td>
<td>8,328</td>
</tr>
<tr>
<td>OJSC West Siberian Steel Mill</td>
<td>6,245</td>
</tr>
<tr>
<td>Evraz Group</td>
<td></td>
</tr>
<tr>
<td>OJSC Nizhny-Tagil Steel Mill</td>
<td>4,977</td>
</tr>
<tr>
<td>OJSC Novokuznetsk Steel Mill</td>
<td>1,688</td>
</tr>
<tr>
<td>OJSC Chusovskoi Steel Mill</td>
<td>3,369</td>
</tr>
<tr>
<td>LLP Uralskaya Stal</td>
<td>2,830</td>
</tr>
<tr>
<td>Total produced in Russia</td>
<td>58,212</td>
</tr>
</tbody>
</table>

* According to LLC Chermet data

The MMK Group is the largest tax payer and employer in the city of Magnitogorsk. The share of MMK’s tax payments in the tax income of the local budget is 46%, and of the Chelyabinsk regional budget, 30%. In 2006 MMK’s tax payments to the budgets of all levels and off-budget funds totaled USD 670 million. This is more USD 170 million more than in 2005.

The number of employees of the OJSC MMK as at the end of 2006 was 25,698 persons, while that of the MMK Group was 55,572. The wages level of the MMK Group’s employees is still the highest in the industry and keeps growing. The 2006 average monthly wages was USD 533, which is USD 126, or 31%, more than in 2005.

The MMK Group pays much attention to the comprehensive development of its personnel and creation of favourable conditions for work and professional training. Over USD 36 million were spent in 2006 on the implementation of various social programs. In July of 2006 MMK won in the 5th Mining and Steel Industry’s Competition for the title of the Enterprise of the Highest Social Efficiency which is sponsored by the Russian Mining and Steel Workers’ Union and the Industrialists Association of the Mining and Steel Sector, in the category of “Personnel Development”, which attests to the broad recognition of the social policy being implemented by the Company.
PRODUCTION

OJSC MMK is a large steel company with a fully integrated production cycle, from mining and processing of iron ore to smelting of pig iron and steel to rolling and downstream processing of steel.

2002-2006 Production by Type of Product, ’000 t

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sinter</td>
<td>9,336</td>
<td>10,000</td>
<td>10,361</td>
<td>10,343</td>
<td>10,750</td>
</tr>
<tr>
<td>Coke, 6% humidity</td>
<td>5,188</td>
<td>5,553</td>
<td>5,872</td>
<td>5,576</td>
<td>5,496</td>
</tr>
<tr>
<td>Hot Metal</td>
<td>9,264</td>
<td>9,766</td>
<td>9,645</td>
<td>9,655</td>
<td>9,733</td>
</tr>
<tr>
<td>Steel</td>
<td>11,009</td>
<td>11,475</td>
<td>11,281</td>
<td>11,385</td>
<td>12,455</td>
</tr>
<tr>
<td>Including BOF-made</td>
<td>8,843</td>
<td>9,503</td>
<td>9,820</td>
<td>10,066</td>
<td>10,249</td>
</tr>
<tr>
<td>Commercial products</td>
<td>9,667</td>
<td>10,073</td>
<td>10,137</td>
<td>10,201</td>
<td>11,346</td>
</tr>
<tr>
<td>Metalware</td>
<td>340</td>
<td>512</td>
<td>440</td>
<td>441</td>
<td>541</td>
</tr>
</tbody>
</table>

In 2006 MMK reached the peak production level in the last 15 years thanks to the constant modernization of the production assets.
Production of Key Products by MMK in 2001-2006

There has been a marked change in shipments to the domestic market, whose share went up from 50.1% in 2005 to 53.5% in 2006.
75 years ago, on the left bank of the Ural River, next to a unique deposit of iron ore of Mountain Magnitnaya, the Magnitogorsk Iron and Steel Works sprang up. This relatively small tract of land contained almost half a billion tonnes of high grade iron ore. That there is magnetic ore in the place had been known as far back as the XVIII century. In 1743, not far from Mountain Magnitnaya, the governor of Orenburg founded a fort of the same name (“Stanitsa Magnitnaya”).

In the late XIX century a Russian government committee lead by D. Mendeleyev, a world-renowned scientist, explored the Urals Mountains and highly praised the quantity and quality of the ore in Mountain Magnitnaya.

The design of the Magnitogorsk Works started in May of 1925. Construction began in 1929 and was completed within a record time. In spite of extremely hard conditions in which the builders of Magnitka had to work, on February the 1st of 1932 Blast Furnace # 1 produced first pig iron, with Blast Furnace # 2 following suit in the summer of the same year.

1933 saw the start-up of Blast Furnaces ## 3 and 4, and four open-hearth furnaces, thus marking the start of steel smelting at the Works. In August of 1934 the first section mill (500 mm) was brought on line. The mill turned the Works into a large supplier of long products and a fully integrated steel mill. Before the war the Works produced about 25% of all iron ore, 12 of pig iron and 10% of steel sheets produced in the USSR.

Soon after the start of the war, the Works received an order for armour steel, and within a month such steel was smelted. Thanks to an innovative solution, for the first time in the history of world steel making, armour plate was rolled on a blooming mill. Another pioneering move was to smelt armour steel in a large-capacity open hearth furnace. With the commissioning of...
the USSR’s most powerful 4,500 mm armour plate mill MMK’s production of armour plate was significantly increased. In 1942–1943 the world’s largest Blast Furnaces #5 and 6 were started up at the Works. In the years of the Great Patriotic War (the Russian name for WWII) every third shell and every second tank’s armour was made from Magnitogorsk steel.

After the war MMK remained “the flagship” of the Soviet steel industry. Practically every year new facilities were put into operation. In 1989 MMK reached its highest ever level of steel production of 16 million tonnes.

1990, the year when the new BOF (converter) steel making division was commissioned, marked the start of a new era for MMK. In 1992, in accordance with the state privatization program, the Magnitogorsk Works was converted into an open joint stock company (OJSC MMK). The key goal at this stage was to continue revamping and modernizing the main production assets. In 1994 A 2,000 mm hot strip mill with a capacity of 5 million tpy was brought on stream.

1999 saw the commissioning of the third BOF Converter and of the coke gas treatment plan. The blast furnace and sinter divisions were significantly upgraded. But the main emphasis during that time was on rolling facilities. In 2002 two first-of-its-kind facilities were started up at MMK: a 1,700 mm two stand reversing cold mill with a capacity of 800,000 tpy of cold rolled strip, and the country’s largest hot dip galvanizing line with a capacity of 500,000 tpy. This was followed in 2004 by a 200,000 tpy colour coating line.

One of the Company’s biggest investment projects in 2006 was the replacement of the open hearth furnace production with the electric arc furnace unit capable of smelting 4 million tonnes of steel per year. Next in line was the radical reconstruction of the MMK Long Products Division which resulted in the total replacement of the old section and bar mills with new fully automated facilities.

The blast furnace division has seen the start of installation of bell-less charging devices in the blast furnaces which will allow to raise the productivity and cut the costs in the division.
As of December 31, 2006, the MMK Group included the Magnitogorsk Iron and Steel Works Open Joint Stock Company and 57 other companies of which 40 are the OJSC MMK’s subsidiaries. The MMK Group is a vertically integrated holding company encompassing all the steel production stages. In addition to this core activity, the MMK Group also carries out a number of auxiliary activities.

The main company within the Group is the Magnitogorsk Iron and Steel Works proper (OJSC MMK). According to the 2006 consolidated statements the OJSC MMK, counting the relevant trading companies’ sales, accounted for 92% of the total sales of the Group. Needless to say, the OJSC MMK’s results have a predominant effect of the total results of the Group.

A uniform control and manage-
PARTICIPATION IN INDUSTRY AND BUSINESS ASSOCIATION, NON-PROFIT AND INTERNATIONAL ORGANIZATIONS.

Since July 4, 1997 OJSC MMK is a member of the International Association of Private Enterprise. OJSC MMK is an equal partner representing interests of employers in the Russian Trilateral Commission concerning creation of social and economic environment in Russia and representation of interests of the Association members in government bodies.

OJSC MMK is a permanent member of the International Iron and Steel Institute (IISI), while Viktor F. Rashnikov is a member of the Board of Directors of IISI.

OJSC MMK is also a member of the non-profit partnership Russian Steel Consortium.
MAIN EVENTS OF THE 2006
January

The steelmakers labor was marked by the high awards: the President of the RF, Mr. Vladimir Putin have executed the Decree of awarding of the Governmental prizes of the OJSC MMK employees. The six employees were awarded by Order of Merit for Motherland of II degree, three employees were recognized as Merited Metallurgist of the Russian Federation,

The Russian Federation and Kazakhstan boundary delineation process was terminated: Ogneupornyi township was included as a part of the Russian Federation. Majority of the adult population of this settlement are the employees of the Buskulskoye Rudoupravlenye which is the OJSC MMK division, this division provides OJSC MMK with the fireclay. OJSC MMK took the lead to include the territory where the Ogneupornyi township is located in the RF structure.

February

In the mounting ski center of OJSC MMK “Metallurg-Magnitogorsk” the fourth skiing “red” track was inaugurated.

The magazine “Metal Supplies and Sales” published the results of the opinion survey aimed to the best Russian Ferrous and Non-Ferrous Metals Producers and Traders identification a of the second half of the 2005. OJSC MMK headed the list among the Russian flat products producers and the second rank – among the downstream products producers. The third line in the rating of the metalware producers pertained to “Magnitogorsk Metizno-Kalibrovochny Zavod” (Metalware producer), included in OJSC MMK Group.
OJSC “Magnitogorsk Iron and Steel Works” was ranked as the third in the category named “Personnel Qualification, personnel training system and retraining system” following to the final results of the Fifth Competition “High Social Efficient Russian Enterprise”.

The guardianship board of the International Welfare Fund “Patrons of Art of Century” granted the Gold Certificate of Patron of Art to the Magnitogorsk Charity Fund “Metalurg”.

The quality management system of OJSC MMK has been audited, in course of which the quality management system compliance with ISO 9001:2000 and ISO/TS 16949:2002 requirements was proved.

March

OJSC MMK was recognized as the winner of The Second Annual Russian competition “The best innovation project in the human resources management – the Gold HR” in category “Staff planning and personnel development”.

In the Mutual Agreement executed between OJSC MMK and the Government of the Republic of Bashkortostan was noted the interest of the both parties concernment in the further development of the long-term relationship aimed to the economic, finance and legal environment to the innovation and investment project implementations.

As a part of the final competition of the Russian Cup, the OJSC MMK Mounting Ski Cup was started in the “Magnitogorsk-Metalurg” mounting ski center.

April

The gas heat treatment furnace was commissioned after the overhaul in OJSC “Mekhanoremontniy Complex”, the subsidiary of OJSC MMK. Its productivity was three times more than the old furnace because of the greater charging capacity and lesser reheating time.

Mainstay Partners, the American Audit Company made an appraisal of the business advantages received from OJSC MMK Corporate Information System implementation based on the Oracle E-Business Suite software products.

The Mounting ski center named “Abzakovo”, constructed by OJSC “Magnitogorsk Iron and Steel Works”, became a winner of the competition organized as a part of the International Mounting Ski Industry Congress.

By the Decree of the RF President, the order of Merit for Motherland of II degree is awarded to 11 employees of OJSC MMK, honorary title “Merited metallurgist of the Russian Federation” is awarded to 3 employees, “Merited Transport Engineer of the Russian Federation” is awarded to 1 employee.

On 25.04.2006 the first EAF was commissioned in the EAF’s division of OJSC MMK.
May
The new electrical filter was commissioned in the OJSC MMK subsidiary named “CJSC Magnitogorsk zementno-ogneuporniy zavod” – it was the third filter. The purification efficiency – 99.6 %.

In CJSC “Mekhanoremontniy Complex of OJSC MMK the quality management system supervision audit was conducted for compliance to ISO 9001:2000 international standard and the Russian GOST P 9001-2001 standard requirements. By the Audit Commission resolution, the compliance certificates validity were approved till March, 2007.

OJSC MMK Accounting department is awarded with the title “The Best Russian Accounting Service – 2005” based on the leading Russian and International experts solution as well as based on the data processed by the independent analytic researches, and such service is awarded with the Honored Diploma.

At OJSC MMK the Environmental Management System certification audit for compliance with the new revision of ISO 14001:2004 International Standard “The Environmental Management Systems Requirements and the Application Guide” was terminated. The audit inspection has testified that the Environmental Management System implemented at OJSC MMK was successfully performing and was complying with all requirement of the new revision of the international standard.

June
OJSC MMK employees are honoured with the RF state awards: six people are awarded with the order of Merit for Motherland of I degree, one employee is honoured with the title of Merited Transport Engineer of the Russian Federation.

The second supervisory audit of functioning the system of industrial safety and labor protection management was held in OJSC MMK for compliance with international Specification OHSAS 18001:1999 with widening the certification area (raw materials mining).

The Trade Union of OJSC MMK was 75 years old.

July
The unit “ladle-furnace” and the slab continuous casting machine in EAF Shop of OJSC MMK were put into operation.

The 170 wire rod rolling mill, intended for production of wire rod (including cord wire and thermo-strengthened rebars with small diameters) is put into operation in OJSC MMK.

In Strip Rolling Shop # 5 the new slitting line is put into operation. Its planned production capacity amounts to 360 thousand tonnes per year.

In OJSC MMK oxygen converter shop the twin ladle steel heating unit is put into operation. The planned production capacity of the unit amounts to more than four million tonnes per year.

The subsidiary of OJSC MMK – CJSC RMK became the prize-winner of the national prize “Tax payer-2006”. 27 employees of OJSC MMK and its subsidiaries were honored with state awards.

The service of intervention cardiology was opened in the reconstructed part of Health Care and Sanitary Department of Magnitogorsk city administration and OJSC MMK.

The unified cardio logical complex consists of angio-roentgen operating room and functional diagnosis, and also of cardio logical department with the high-comfortable wards.

In coal preparation shop of CJSC Russian Metallurgical Company of Coke and Chemical By-products Division of OJSC MMK the grab crane – coal loader was put into operation.
August

In the mould shop of CJSC “Mechanoremonntny complex” of OJSC Magnitogorsk Iron and Steel Works they commissioned the centrifugal unit for casting the section rolls. The new unit is operating for the orders, in the first place, of OJSC MMK, completely satisfying the needs of the works in section rolls.

OJSC MMK took the 16th place in the rating of 300 largest Russian companies, compiled by “Dengy” magazine of “Kommersant” publishing house. Besides “Dengy” magazine compiled the list of the most socially important issuers of Russia, in which OJSC MMK also takes the 16th line. In the rating of the most profitable issuers Magnitka takes the 14th place among the Russian companies.

September

In Magnitogorsk the construction of the new power sub-station was completed, and one of the investor of it was OJSC MMK. The construction of the sub-station was completed within one year. OJSC MMK took part in financing this project under the contract for construction by shares, concluded with the city administration.

Quality management system of OJSC MMK METIZ included into OJSC MMK Group, has successfully passed the testing. The commission of BVQI certification body completed the certification audit of OJSC MMK-METIZ quality management system for compliance with International standard ISO 9001:2000.

October

On the 16th of October the 100 million th tonne of the converter steel was produced in the Oxygen converter Shop of OJSC MMK since the date of shop commissioning in 1990.

Russian Association of managers and the “Kommersant” publishing house published the seventh rating “1000 most professional managers of Russia” as a part of the joint project. Viktor F.Rashnikov, the Chairman of the OJSC MMK Board of Directors was included into the rating of “business-leaders”. Vladimir I.Shmakov, Vice-president for finance and economy of LLC MMK Managing company, was included into the list of the leading directors for finance in the steel industry. Alexander L. Mastruyev, OJSC MMK Director for personnel and social programs, took the place in the rating of the best directors for personnel, and Ivan V. Senichev, the head of Information and public relations administration of the company, was included into the list of the best directors for public and corporate relations.

The OJSC MMK credit rating was increased. The Standard & Poor’s rating agency increased the ratings of OJSC Magnitogorsk Iron and Steel Works from “BB-” to “BB” due to the continuous increase of operative results and improvement of the financial profile of the company. The forecast for rating change is “Stable”. At the same time the rating under national scale was increased from “ruAA-” to “ruAA”.

OJSC MMK has signed the contract for construction of the second HDGL with the Italian company Danieli.

November

In OJSC MMK Blast furnace shop the first chute type bell-less top charge system was put into operation.

OJSC MMK has concluded the
contract with SMS Demag for the construction of 5,000 plate mill and with OJSC Uralmash – for the construction of slab continuous casting machine.

In OJSC MMK Strip rolling shop # 4 the automatic control system for technological processes of 2500 hot rolling mill was put into operation.

Centrifugal cast rolls manufactured by CJSC MRK were awarded with silver medal at the International exhibition "Metal-Expo-2006".

The social report of OJSC Magnitogorsk Iron and Steel Works was included into the National Register of corporate non-financial reports.

December

OJSC MMK has purchased the license for the development of Priokskolsky iron-ore deposit in Belgorod region.

OJSC MMK was acknowledged as the leader of “Transparency Rating-2006”. As the results of the research as a part of the project “National Rating of Purchases’ Transparency” OJSC MMK was awarded with the 1-st level in the category “Corporate purchasers”, the level of transparency: ПР++ “guaranteed transparency”. The initiator of the project became the interregional public action “Against corruption”, national association of the participants of the electronic trade under the support of the State Duma commission for corruption opposition, Federal antimonopoly service, RF Audit Chamber.

At the sinter plant of the OJSC MMK Ore-dressing division the commissioning of the sinter stabilization unit took place.

January 2007

The first ice-hockey play took place in the new universal sport complex “Arena-Metallurg” with the capacity of more than 7.5 thousands spectators.

Viktor F. Rashnikov, the Chairman of OJSC MMK Board of Directors, the head of the regional branch of the Russian Union of Industrialists and Entrepreneurs, the member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs, was included into the presidium membership of the Federal Council of the Russian Union of Industrialists and Entrepreneurs.

On the eve of the 75th anniversary of the OJSC MMK the meeting of Vladimir V. Putin, the President of Russia, with Viktor F. Rashnikov, the Chairman of the OJSC MMK Board of Directors, took place. At this meeting they discussed the current situation of the Magnitogorsk Iron and Steel Works and the perspectives of the company development.

February 2007

On the 1-st of February OJSC MMK was 75 years old.

The Memorandum on strategic cooperation between OJSC MMK and OJSC “Trubnaya Metallurgicheskaya Kompaniya” was signed.

The contract with the Siemens-VAI for the supply of the third unit “ladle-furnace” for the EAF shop was signed.

The International Rating Agency Fitch Ratings increased the OJSC MMK credit rating from "BB-" to "BB".

OJSC MMK has purchased the majority interest of Bakalskoye Rudoupravlenie.

The Board of Directors on its meeting determined the date and the place of holding the annual general meeting of OJSC MMK shareholders: the 30th of March, 2007, Magnitogorsk.

The Magnitogorsk Metiznokalibrovchny Zavod (Metalware producers) which is included in OJSC MMK group, mastered the production of cold-formed rebars of class D500C for reinforcing the concrete constructions.

March 2007

OJSC MMK has concluded the 10-year contract for the supply of the iron-ore raw materials of SSGPO. This contract provides for stable supply volumes - 12 million tonnes per year.

The second chute type bell-less top charge system was put into operation in OJSC MMK Blast furnace shop.

The Decree of the RF President is signed on RF State awards to OJSC MMK employees. The order of Merit for Motherland of II degree is awarded to 17 employees, honorary title “Merited metallurgist of the Russian Federation” is awarded to 7 employees, “Merited Transport Engineer of the Russian Federation” is awarded to two people. The honorary title “Merited Power Engineer of the Russian Federation” is awarded to four people. Also 7 employees of CJSC MRK received the State awards.

On March, 30 the Annual general meeting of the OJSC MMK shareholders took place.
MARKET REVIEW
GLOBAL STEEL MARKET

During the last 5 years steel production and consumption have grown half as large again on the global scale. Steel production and consumption growth tends to survive in 2006. Global steel consumption made up 1.1 billion tonnes in 2006 and brought about global increase in steelmaking capacity. International Iron and Steel Institute (IISI) reports that global steel production grew by 8.8%, totaling 1.24 million tonnes last year, with China making a major contribution, having increased its steel production by 17.7% up to 420 million tonnes, which constitutes the third part of the global figures. Other countries increased steel production as well: there was a 6.8% production growth in Russia, 3.8% - in the USA and 3.3% in Japan.

China remains the key player in the global steel market. In 2006 China exported over 50 million tonnes of steel products and significantly reduced its import. Therefore China became the major world steel exporter. Chinese steel products are supplied to Korean, Taiwanese and US markets, as well as to the EU market. It took the Chinese steel sector just a few years to turn from a driving force into the major threat for the global steel industry growth, with a possibility of overproduction in view.

In the mid-term global steel industry growth will remain progressive. International Iron and Steel Institute (IISI) forecasts the global demand for steel products to grow on the average by 4.9% annually till 2010, while the growth will be 7% and 8% in India and China, respectively.

High level of steel products consumption promoted higher prices in most regional markets. Mid-2006 saw the highest prices ever paid for steel products. Still, already in August there was a growth recession mainly due to steel overproduction in the global market, just as a few years ago.

China export was abundant. Disbalance between demand and supply resulted in a greatest volume of stock over the past few years. Besides the 2H2006 slow-down in the US economy had negative influence on the market conditions.

Market participants took certain steps to stabilize the situation in 2H2006. Thus, in November Chinese government imposed a 10% export duty on steel semi-products, while major Chinese steel producers put free-will restrictions on their supplies to EU. The USA haven’t put any restrictions on China supplies.
Global consumption has increased by 7.6% in 2006 compared to 2005. The year 2006 was quite a fortunate year for Russian producers. Apparent steel consumption has grown by 13% to make up 33 million tonnes. Pipe industry (with pipe production growth of 17.7% and pipe production increased to 7.9 million tonnes), engineering industry, construction industry and manufacturing industry – all developed very actively. The demand growth made it possible for Russian producers to increase sales in the domestic market. Russian steel sector develops steadily. The past five years saw a 24% increase in finished steel production. In 2006 the production growth was as high as 6.5%, with 58.2 million tonnes of finished products produced.

For the first time in recent years Russian companies managed to regain market share lost to foreign producers. Market share of import steel products was reduced from 12% to 11% in 2006. That is a clear evidence of growing competitiveness of Russian steel products in the domestic market and of efficient use of safeguard measures against unfair competition on the part of foreign producers.

The basis for optimistic forecasts lies in the assumption that the world trend for growing demand will be strong during the forthcoming years. European and US markets are expected to remain the most attractive for exporters. However these markets may be threatened with the imposition of new restrictive measures. Despite its consumption growth potential the Middle-East market may become less attractive for the CIS producers, because a stronger competitive position of Chinese steel producers may make its price position weaker.

Experts are quite optimistic about the future. The global steel market develops cyclically in accordance with the laws of general economy. Over the past few years the cycles grew to be shorter and now run for about 2 years. Accordingly, experts expect the steel price pendulum to swing in the other direction towards growing prices at the beginning of the 2Q 2007, with the growth period lasting till the end of the year.

The minimum threshold in the price cycle has become ever more significant over the past few years. Present-day prices can’t fall as low as they used to because steel production costs are constantly on the rise. Prices for iron ore raw materials are believed to have grown over the past few years. This is also true for electricity tariffs, natural gas costs, environmental and labor costs. Besides US dollar devaluation contributes a lot to the price growth. All this provides for stable high level of prices for steel products.

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Domestic market environment was favourable in 2006. Russian price movement was subject to the global market trends. Price improvement was obvious in Q2 and Q3. The end of the year saw the prices stabilized considering seasonal adjustment.

According to forecasts for further development of the Russian economy as well as large steel-consuming industries, growth of consumption is expected to be 6-6.5% per annum in the mid-term. Sustainable growth of demand and minor exposure of the Russian market to price fluctuation will procure a high rate of return for domestic producers in the mid-term. No drastic falls in Russian prices are expected while the prospective cyclical growth of the global steel market will provide for their growth.

Russian Ministry of Economic Development and Trade forecasts finished steel production to grow up to 60.7 million tonnes in Russia by 2009. They expect competitiveness of Russian steel products to increase whereas import volume to decrease in the mid-term. The key factors to stipulate the growth of demand will be the construction of long-distance oil and gas pipelines, the development of housing and industrial construction, processing industries and railway transport.

METALWARE MARKET

OJSC MMK is the second leading producer of metalware among Russian companies, with only OJSC Severstal-Metiz to out-top it. OJSC MMK-METIZ of OJSC MMK Group is responsible for the production and sales of metalware and produced 541 thousand tonnes of metalware in 2006. Metalware market share of OJSC MMK-METIZ increased to 26% in 2006 compared to 23% in 2005.

The products of OJSC MMK-METIZ are used in automobile construction, engineering, machine-building industry and gas and oil producing industry. OJSC MMK-METIZ is the leading company in production and sales of the following products:
- railway fittings – market share 52%;
- mechanical fittings – market share 50%;
- wire for concrete-steel constructions – market share 29%.

Since most Russian quickly developing industries are main metalware consumers, one may expect OJSC MMK-METIZ to maintain its metalware production growth of 12% per annum, reached in 2002-2006, in years to come.
SALES ACTIVITIES
Sales activities of the company in domestic market are mainly oriented at maintaining its role of a key steel products supplier for largest industrial consumers and further optimizing its sales processes in the spot market. Merchandising sales policy of the company is based on securing most efficient sales in terms of regions and assortment of products. The sales volume of OJSC MMK steel products was over 11.3 million tonnes in 2006, which is 1.1 million tonnes more than in 2005. At that, sales volume in Russian and CIS markets was nearly 0.8 million tonnes more than the export volume.

OJSC MMK products are sold in Russia and more than 80 other countries of the world. OJSC MMK secures a domestic steel market share of 17%.

Igor V. Vier, Vice-President of LLC MMK Managing Company for Commerce:
“...The year 2006 was quite fortunate for Russian steel producers. The general economic stability in Russia and the favourable situation on foreign markets contributed to the steel industry’s success. Increasing investments in major steel consuming industries and a strategic partnership of OJSC MMK with such consumers secure sustainable sales growth for MMK. In 2006 MMK reached a new milestone in its operations producing and shipping over 1 million tonnes of steel products since August.

The recent sales policy of OJSC MMK has been focused on the domestic market. In 2006 the Company’s sales in the domestic market increased by almost 1 million tonnes, with MMK building up sales through its own traders’ system. We intend to expand sales of the OJSC MMK steel products in Russian and CIS markets in 2007.”
In terms of the assortment of products for export, supplies of billets are reduced while sales of flat products are constantly increasing. Share of billets in export sales dropped off to 6% in 2006 compared to 23% in 2001. Share of flat products in export increased from 62% to 84% for the same period. Share of downstream products comes gradually down as these products are being sold in greater volumes in the domestic volumes which provides higher margins.
The domestic market becomes ever more strategically-important for OJSC MMK due to its geographical proximity, minor price fluctuations, higher margins and increasing steel consumption. OJSC MMK keeps increasing volumes of supplies to the domestic market, which have almost tripled over the past decade.

Thus, domestic sales volume made up 2.1 million tonnes in 1996, was higher than 5.1 million tonnes in 2005 and totaled 6 million tonnes in 2006.

Major regions within Russia for OJSC MMK steel products supplies are the Urals Region, the Volga Region and the Central Region. Over 40% of the volume of products for the domestic market are sold within a 500 kilometers’ distance from Magnitogorsk. The present composition of regional supplies is conditioned by the great number of largest industrial consumers located in the abovementioned regions and was subject to no drastic changes over the past few years.

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In the domestic market the major industrial consumers of OJSC MMK steel rolled products are the enterprises of steel industry, namely pipe and metalware plants, which in 2006 accounted for more than one third of all the sales. The strategic consumer for OJSC MMK is machine-building complex, which accounted for 27% of the company’s sales in the domestic market in 2006. Some reduction of the share of machine-building complex in OJSC MMK shipments structure is caused by relatively moderate growth index of the branch against a background of more rapid development of other branches of industry. The development of OJSC MMK sales network allowed to increase the sales through it by 75% compared to 2005.

<table>
<thead>
<tr>
<th>Brunches of industry</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Th.t.</td>
<td>share</td>
</tr>
<tr>
<td>Steel Industry</td>
<td>1,750</td>
<td>37%</td>
</tr>
<tr>
<td>Including metalware and processing plants</td>
<td>740</td>
<td>16%</td>
</tr>
<tr>
<td>Pipe production</td>
<td>1,010</td>
<td>21%</td>
</tr>
<tr>
<td>Machine-building</td>
<td>1,510</td>
<td>32%</td>
</tr>
<tr>
<td>Including motorcar industry</td>
<td>505</td>
<td>11%</td>
</tr>
<tr>
<td>Bridge Engineering</td>
<td>13</td>
<td>0,3%</td>
</tr>
<tr>
<td>Construction</td>
<td>169</td>
<td>4%</td>
</tr>
<tr>
<td>Food Industry</td>
<td>192</td>
<td>4%</td>
</tr>
<tr>
<td>Fuel and Power Complex</td>
<td>95</td>
<td>2%</td>
</tr>
<tr>
<td>Regional distribution</td>
<td>970</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>4,699</td>
<td>100%</td>
</tr>
</tbody>
</table>

**OUTLOOK FOR MMK SALES IN 2007**

In 2007 OJSC MMK is planning to sell 12.4 million tonnes of commercial steel products, including 4.9 million tonnes of export sales to Far Abroad countries (40%), 0.78 million tonnes to the Commonwealth of Independent States. In the domestic market the key segments consuming OJSC MMK products will be metallurgical companies including pipe-making plants, shipments to which will amount to 1.5 million tonnes, and metalware plants which shipments will amount to 0.8 million tonnes.
It is planned to sell 1.6 – 1.7 million tonnes to the machine-building companies including about 0.5 million tonnes to the automakers and agricultural machinery industry. One third of OJSC MMK sales will be in the spot market, the major participants of which are the building and construction companies, which usually purchase steel products from regional warehouses and service centers.

The regional structure of shipments in the domestic market will not undergo significant changes in comparison with 2006. The main regions in which the Company will keep the presence will be the Urals region, Central and Volga regions.

The product range of the sales in the domestic market will sustain the main changes due to the increase of flat products shipments almost by one third (including cold-rolled sheets – by more than 40%) and the growth of long-products sales by 23%. The shipment of downstream products will increase slightly, as in 2006 already the main part of these products were sold in the domestic market.

In the export markets the main regions consuming MMK steel products in 2007 will be Middle East countries (first of all Turkey), countries of Europe and Northern America. The delivery volumes to the countries of South-East Asia will be greatly decreased compared to 2006 due to the rapid increase of production volumes in the Peoples Republic of China. The growth of competition in the world market may result in establishment of restrictive measures in various regions. That is why the geographical structure of OJSC MMK export can be subject to changes.

OJSC MMK has intention to increase its presence in the market of CIS countries. The Company’s sales to CIS countries in 2006 increased almost 1.5 times compared to 2005, the same level is planned for 2007 – the shipments will amount to 780 thousand tonnes.

In 2007 it is planned to reduce the export shipment of flat products, cold-rolled strip, formed sections and to reject in full from export of long products, galvanized products and pipes in favor of domestic market. The planned increase of sales volumes of slabs is explained by excess steel-melting facilities after putting into operation the new electric steel-melting complex in 2006.
OJSC MMK product range may be divided into three main groups: flat products, long products and downstream products.

**FLAT PRODUCTS**

**Slab** is used for production of flat products in coils and sheets.

**Hot-rolled coil** is used for production of cold-rolled coils, strip and electric welded pipes.

**Hot-rolled sheet** is used for production of steel articles.

**Cold-rolled coil** is used for production of machine and mechanism parts, including frames, welded pipes and other steel articles.

**Cold-rolled sheet** is used for production of machine and mechanism parts, home appliances, consumer goods and other steel articles.

**Black plate** (in coils and sheets) is used for production of tin plate, thin cold-rolled band (in coils), consumer goods.
Cold-rolled band is used for manufacturing machine and mechanism parts including wheel disks, springs and band saws, cartridges, furniture tubes, bearings, consumer goods and other steel articles, and also used for cargo strapping and bracing.

**LONG PRODUCTS**

**Billet** is used for production of long rolled products.

**Square bar** is used for manufacturing railway fasteners and also for manufacturing metal constructions.

**Flat bar** is used for manufacturing machine and mechanism parts, metal construction.

**Round bar** is used for production of machine and mechanism parts, fasteners.

**Wire rod** is used for manufacturing wire, steel ropes, metal cord, cables and other steel articles, and also for packing and strapping lumber, metals and other cargo.

**Hexagonal bar** is used for manufacturing fasteners.

**Re-bars and de-bars** is used in construction for reinforcing concrete structures.
Equal and unequal angle is used for manufacturing metal constructions, machine frames, etc.

Special purpose section is used for reinforcement of shafts, manufacturing machine and mechanism parts.

DOWNSTREAM PRODUCTS

U-channel is used for manufacturing metal constructions.

Galvanized and/or color coated steel products

Cold formed section is used for manufacturing bodies and individual wagon parts, and also for production of metal constructions and load-bearing parts.

Beam is used for manufacturing metal constructions.

Tin plate is used for manufacturing containers, vessels, tins and caps and other containers for packaging. OJSC MMK is the only producer of tin plate in Russian Federation.

Electric-welded pipe of round and square cross-section, including galvanized pipe, is used as a load-bearing parts in construction, water and gas piping in housing and utilities infrastructure.
OJSC MMK Trade Mark

In 2007 OJSC MMK celebrates the 75th anniversary from its establishment. During all this period the works was widely known to the consumers in the USSR, and then in Russia and CIS countries as the leader of domestic metallurgical industry, producing the widest range of steel products. The trade mark of OJSC MMK, used till now with little changes was registered by the company in 1962 for consumer goods and in 1974 for steel products. All range of products is sold both in Russia and abroad under MMK trade mark. The products of the works was sold abroad in the USSR’s time and at present the trade mark MMK is known to the consumers of many countries all over the world. During the last years OJSC MMK products are sold in 70-80 countries of the world. During the years of OJSC MMK activity in the market it received the image of reliable supplier of wide range of high quality steel products.

The support and further promotion of OJSC MMK trade mark in existing and potential markets of steel products is effected through development and operation of advertising campaign. Advertising campaigns are focused on geographical and industrial market segments which are interesting for Magnitogorsk Iron and Steel Works. The promotion of trade mark “MMK” is effected by various types of advertising activity.

According to the RF legislation the registered trade mark is subject to re-registration every 10 years. Not so long ago it was registered in definite color spectrum. Both color spectrum and versions of the way of writing taking into account the prints are shown in company block of OJSC MMK.

Depending on the type of product and the place of OJSC MMK mark application its image may be the following:
SUPPLIES OF MATERIALS
Metallurgy is one of the most raw-materials intensive and power intensive industries. More than 90% of raw and input materials purchased by the OJSC MMK Group, is used in the production of the parent company – OJSC MMK.

The supply of raw materials of the proper quantity and quality with optimal costs, and determination of long-term partner relations with the suppliers are the basis of the policy of OJSC MMK Group in the sphere of raw materials supply.

### Purchasing of raw and input materials

<table>
<thead>
<tr>
<th>Description of raw materials</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron ore raw materials (IORM)</td>
<td>14,171</td>
<td>13,221</td>
</tr>
<tr>
<td>Coal concentrate</td>
<td>7,682</td>
<td>7,126</td>
</tr>
<tr>
<td>Scrap metal</td>
<td>2,401</td>
<td>4,099</td>
</tr>
<tr>
<td>Ferroalloys and non-ferrous metals</td>
<td>176</td>
<td>227</td>
</tr>
</tbody>
</table>

In 2006 compared to 2005 the growth of purchasing scrap, ferroalloys and non-ferrous metals took place due to putting into operation the EAF complex.

### Iron-ore raw materials

Sokolovsko-Sarbaiskaya group, which is explained by geographical proximity of OJSC MMK to these deposits (the distance between them being 330 km while the distance to iron ore producers of Kursk Magnetic Anomaly is about 2,200 km).

In 2006 the supplies from SSGOP satisfied 80% of OJSC MMK needs in iron-ore raw materials. Besides OJSC MMK purchases iron-ore raw materials from a number of other suppliers which allows to achieve the diversification and flexibility of supplies.

For 2006 OJSC MMK concluded the annual contract for the supply of SSGOP iron-ore raw materials at the fixed price. In March 2007 OJSC MMK concluded long-term contract for 10 years for the supply of SSGOP iron-ore raw materials which provides for stable supply volume – 12 million tonnes per year.

In the long-term perspective OJSC MMK stakes on creation of its own source of raw materials. Aiming at this:
- in 2006 it purchased the license for the development of Prioskolsky iron-ore deposit, located on the territory of Belgorod region. Its total balance resources of ferruginous quartzite amounts to 2.1 milliard tonnes with the 36.8% iron content, balance reserves of high grade ore – 45.17 million tonnes (50.31% iron content). The deposit is wholly...
Most of coal concentrates (about 90%) are supplied to OJSC MMK from Kuznetsk coal basin (Russia). In order to supply the necessary composition of coal charge OJSC MMK purchases coal concentrate from the enterprises of Karaganda (Kazakhstan), Lensky and Pechorsky (Russia) coal basins.

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In 2006 OJSC MMK concluded contracts for 5 years with fixed volumes of coal concentrate supplies and annual price adjustment.

In the long-term perspective OJSC MMK stakes at creation of its own source of raw materials. OJSC MMK realizes joint projects with OJSC Uzhkuzbasugol on construction of two new coal mines located in Kuznetsk coal basin. The annual volume of coal mining at these mines will amount to 4 million tonnes (about 50% of OJSC MMK need in coal concentrate for coking).
Supplies of ferroalloys by regions in 2006

- Central Russia: 21%
- Ukraine: 34%
- The Urals region: 24%
- Georgia: 4%
- Kazakhstan: 17%

Ferroalloys

The needs in FeMn-76 are covered by Russian producers (Satka, Kosaya mountain); FeSi-65 is supplied from Chelyabinsk Electric Metallurgical Plant and Kuznetsk ferroalloys plant. Other ferroalloys are imported from Ukraine, Kazakhstan, Georgia.

In 2006 the main regions supplying ferroalloys were:
- Ukraine – 53,714 tonnes;
- Kazakhstan – 25,703 tonnes;
- Central Russia – 31,551 tonnes;
- The Urals region – 37,400 tonnes;
- Georgia – 5,540 tonnes.

Scrap metal

Presently OJSC MMK is supplied with scrap metal in full, mostly due to availability of the strategic partner for collection, processing and sale of scrap metal - CJSC Profit.

OJSC MMK jointly with CJSC Profit has developed the program for creation of company group engaged in collection and supply of scrap metal. At present the system of collecting scrap metal is stretched out for 3,000 km and includes about 50 companies and enterprises in different regions.

In 2006 CJSC Profit supplied to OJSC MMK 4,099 thousand tonnes of scrap metal.

Subject to increase of electric steel production the OJSC MMK needs in scrap metal in 2007 will amount to 4,595 thousand tonnes.

OJSC MMK perspectives in satisfying its production with necessary amount of iron-and-steel scrap are dependent on developing new facilities for scrap collection and processing in geographically remote regions.
FINANCIAL OVERVIEW
Vladimir I. Shmakov, Vice-President of LLC MMK Managing Company for Finance and Economics:

“The 2006 strong financial performance and financial stability of the Company were not accidental. OJSC MMK is one of the world’s leading companies in respect of accounting procedures and economic studies. We have been using international accounting standards in our financial statements since 2000, and the names of our auditors, KPMG and Deloitte& Touche, speak for themselves. We have recently created an efficient Oracle-based cost management system including management and budgeting models in conjunction with a personnel incentives system. The employees of the Company are all involved in the process of reducing costs. The world’s leading rating agencies highly evaluated the strong financial performance, comprehensive approach to economic studies and the Company’s determined focus on securing transparency of its business. A positive credit history and the confidence of the major international banks and export credit agencies ensure unrestricted access to credit facilities to the Company. Nevertheless, MMK follows a conservative borrowing policy and keeps its financing options open.”

Marina A. Zhemchueva, MMK’s Chief Accountant:

“MMK places high emphasis on increase of transparency level of financial reporting. In achieving this aim accountants, one of the key professions in business, play a special role. Today MMK provides reporting at the earliest date among the similar companies: the full set of financial reporting according to Russian standards is performed on 5th day following the month under report and on 6th day following the quarter under report.”
In 2006 sales proceeds: was amounted to USD 6,424 million. In comparison with 2005 the sales proceeds grew up by 19.4%, or USD 1,044 million. The proceeds increase was attributable to the steel products output growth by 11.2%.

CONDENSED ANALYSIS OF CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

In 2006 MMK significantly improved net income results. Net income was up 50.6 per cent in 2006 and reached USD 1,426 million by the end of 2006 or EPS of 0.14 USD. Net income margin increased to 22.2 per cent.

Consolidated Statements of operations and comprehensive income

<table>
<thead>
<tr>
<th>Years ended December 31,</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue</td>
<td>4,829</td>
<td>5,380</td>
<td>6,424</td>
</tr>
<tr>
<td>Cost of products sold</td>
<td>(2,712)</td>
<td>(3,274)</td>
<td>(3,619)</td>
</tr>
<tr>
<td></td>
<td>Depreciation and amortization</td>
<td>(169)</td>
<td>(173)</td>
</tr>
<tr>
<td></td>
<td>Selling and distribution expenses</td>
<td>(128)</td>
<td>(237)</td>
</tr>
<tr>
<td></td>
<td>Administrative and other expenses</td>
<td>(213)</td>
<td>(262)</td>
</tr>
<tr>
<td>Social expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social asset construction costs</td>
<td>(1)</td>
<td>-</td>
<td>(18)</td>
</tr>
<tr>
<td>Social and maintenance expenses</td>
<td>(33)</td>
<td>(56)</td>
<td>(58)</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>(48)</td>
<td>(59)</td>
<td>(63)</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>(28)</td>
<td>(15)</td>
<td>(52)</td>
</tr>
<tr>
<td>Other operating income, net</td>
<td>41</td>
<td>19</td>
<td>39</td>
</tr>
<tr>
<td><strong>Income from operating activities</strong></td>
<td><strong>1,538</strong></td>
<td><strong>1,323</strong></td>
<td><strong>1,765</strong></td>
</tr>
<tr>
<td>Equity in net (losses)/gains of affiliates</td>
<td>1</td>
<td>-</td>
<td>(8)</td>
</tr>
<tr>
<td>Interest income</td>
<td>69</td>
<td>97</td>
<td>69</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(65)</td>
<td>(64)</td>
<td>(63)</td>
</tr>
<tr>
<td>Net foreign exchange gain/(loss)</td>
<td>78</td>
<td>(39)</td>
<td>132</td>
</tr>
<tr>
<td><strong>Income before income tax and minority interest</strong></td>
<td><strong>1,621</strong></td>
<td><strong>1,317</strong></td>
<td><strong>1,895</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(389)</td>
<td>(372)</td>
<td>(468)</td>
</tr>
<tr>
<td><strong>Income before minority interest</strong></td>
<td><strong>1,232</strong></td>
<td><strong>945</strong></td>
<td><strong>1,427</strong></td>
</tr>
<tr>
<td>Minority interest</td>
<td>-</td>
<td>2</td>
<td>(1)</td>
</tr>
</tbody>
</table>
Net income

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>1,232</td>
<td>947</td>
<td>1,426</td>
</tr>
</tbody>
</table>

Other comprehensive income:

Unrealized gain on securities classified as available for sale, net of income tax effect of USD 5

Comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,232</td>
<td>947</td>
<td>1,444</td>
</tr>
</tbody>
</table>

Basic and diluted earnings per common share (USD)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.125</td>
<td>0.095</td>
<td>0.140</td>
</tr>
</tbody>
</table>

Revenue

Compared to 2005 and 2004, the MMK Group’s consolidated net revenue for the year ended 31, December 2006 increased by USD 1,044 million, or 19.4 per cent and USD 1,595 million, or 33 per cent respectively. This increase was primarily due to increased sales volumes, primarily driven by the sale of Assorted rolled products and hot-rolled products to Russia and CIS, as well as increased prices.

Revenues from sales of assorted rolled products increased by 77.1 per cent. from USD 341 million in 2005 to USD 604 million in 2006, primarily due to a significant increase in the volume of sales of these products as a result of the completion of the reconstruction of the manufacturing facilities for assorted rolled products and increased production capacity of such facilities.

Revenues from sales of rolled steel increased 18.5 per cent. from USD 3,165 million in 2005 to USD 3,752 million in 2006 due primarily to an increase in sales volumes.

Revenues from sales of galvanized steel with polymeric coating increased 13.6 per cent compared to 2005 and 236 per cent compared to 2004. This increase was primarily due to increased sales volumes.

Also the MMK Group’s consolidated net revenue increased due to increase in sales volume of pipe, as well as an increase in pipe prices. Revenues from sales of pipes increased 25.6 per cent. from USD 39 million in 2005 to USD 49 million in 2006.

By product

<table>
<thead>
<tr>
<th>By product</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rolled steel</td>
<td>2,853</td>
<td>3,165</td>
<td>3,752</td>
</tr>
<tr>
<td>Assorted rolled products</td>
<td>365</td>
<td>341</td>
<td>604</td>
</tr>
<tr>
<td>Galvanized steel</td>
<td>322</td>
<td>338</td>
<td>377</td>
</tr>
<tr>
<td>Hardware products</td>
<td>121</td>
<td>117</td>
<td>283</td>
</tr>
<tr>
<td>Tin plated steel</td>
<td>217</td>
<td>295</td>
<td>254</td>
</tr>
<tr>
<td>Band</td>
<td>251</td>
<td>274</td>
<td>251</td>
</tr>
<tr>
<td>Galvanized steel with polymeric coating</td>
<td>50</td>
<td>148</td>
<td>168</td>
</tr>
<tr>
<td>Formed section</td>
<td>73</td>
<td>112</td>
<td>127</td>
</tr>
<tr>
<td>Coking production</td>
<td>66</td>
<td>102</td>
<td>113</td>
</tr>
<tr>
<td>Slabs</td>
<td>258</td>
<td>140</td>
<td>107</td>
</tr>
<tr>
<td>Pipes</td>
<td>45</td>
<td>39</td>
<td>49</td>
</tr>
<tr>
<td>Wire, sling, bracing</td>
<td>80</td>
<td>71</td>
<td>30</td>
</tr>
<tr>
<td>Others</td>
<td>128</td>
<td>238</td>
<td>309</td>
</tr>
</tbody>
</table>

Years ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,829</td>
<td>5,380</td>
<td>6,424</td>
</tr>
</tbody>
</table>
MMK Group's sales outside Russia and CIS were 38, 39 and 45 per cent of total sales for the years 2006, 2005 and 2004 respectively.

### By customer destination

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Russian Federation and CIS</td>
<td>55%</td>
<td>61%</td>
<td>62%</td>
</tr>
<tr>
<td>Turkey</td>
<td>5%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Iran</td>
<td>2%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Italy</td>
<td>6%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>USA</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>India</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>China</td>
<td>6%</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4%</td>
<td>1%</td>
<td>-</td>
</tr>
<tr>
<td>Others (countries each representing less than 2% of total net revenue)</td>
<td>16%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### MMK Group's cost of products sold structure (exclusive of depreciation)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials (including raw materials and energy)</td>
<td>2,336</td>
<td>2,860</td>
<td>3,131</td>
</tr>
<tr>
<td>Payroll</td>
<td>291</td>
<td>315</td>
<td>394</td>
</tr>
<tr>
<td>Overheads</td>
<td>104</td>
<td>75</td>
<td>78</td>
</tr>
<tr>
<td>Other expenses</td>
<td>23</td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td>Changes in work-in-progress and finished goods</td>
<td>(42)</td>
<td>(7)</td>
<td>(17)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,712</td>
<td>3,274</td>
<td>3,619</td>
</tr>
</tbody>
</table>
## Condensed analysis of Consolidated Balance Sheets

### Aggregated Balance Sheets

<table>
<thead>
<tr>
<th>Assets</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,884</td>
<td>1,138</td>
<td>338</td>
</tr>
<tr>
<td>Short-term bank deposits</td>
<td>209</td>
<td>-</td>
<td>228</td>
</tr>
<tr>
<td>Current investments</td>
<td>53</td>
<td>13</td>
<td>325</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>772</td>
<td>584</td>
<td>865</td>
</tr>
<tr>
<td>Inventory</td>
<td>455</td>
<td>568</td>
<td>688</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
<td>26</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,397</td>
<td>2,329</td>
<td>2,480</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,883</td>
<td>2,288</td>
<td>2,764</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>136</td>
<td>237</td>
<td>445</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5,416</td>
<td>4,854</td>
<td>5,689</td>
</tr>
</tbody>
</table>

| Liabilities and shareholders’ equity |       |       |       |
| Current liabilities            |       |       |       |
| Bank overdraft                 | -     | -     | 2     |
| Short-term borrowings and capital lease obligations | 847 | 171 | 398 |
| Accounts payable               | 404   | 469   | 553   |
| Other short-term liabilities   | 11    | 26    | 11    |
| **Total current liabilities**  | 1,262 | 666   | 964   |
| Long-term borrowings and capital lease obligations | 388 | 468 | 606 |
| Employee benefits              | 23    | 26    | 30    |
| Other long-term liabilities    | 4     | 6     | 50    |
| **Total liabilities**          | 1,677 | 1,166 | 1,650 |
| Minority interest              | 11    | 11    | 12    |
| **Total capital**              | 3,728 | 3,677 | 4,027 |
| **Total liabilities and shareholders’ equity** | 5,416 | 4,854 | 5,689 |

The values of following ratios indicate that the Group has sufficient current assets to cover all current liabilities.

<table>
<thead>
<tr>
<th>Ratios</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>2.69</td>
<td>3.49</td>
<td>2.57</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>2.33</td>
<td>2.64</td>
<td>1.86</td>
</tr>
</tbody>
</table>
During the last seven years there has been a steady growth of the Group's net assets (2.27 times since 2000), at the same time the total assets value within the same period increased by 2.89 times. According to the results of 2006 the total assets value amounted to USD 5,689 million, and the net assets value – to USD 4,027 million.

The amount of non-current assets in 2006 increased by USD 684 million (by 27 per cent) and by USD 1,190 million (by 58.9 per cent) compared to 2005 and 2004 respectively. This increase was primarily due to the commissioning of two electric arc steel-making furnaces in 2006 and commissioning of two assorted rolling mills and reconstruction of the blast furnaces facilities in 2005 as part of Group's ongoing Modernisation and Investment Programme.

The amount of current assets increased by USD 151 million (by 6 per cent) and by USD 1,190 million (by 58.9 per cent) compared to 2005 and 2004 respectively. As a result of this there were some changes in the structure of assets in the balance sheet: current/non-current assets ratio became 44/56 (48/52 in 2005, 63/37 in 2004).
The Group’s income from operating activities increased by 33.4 per cent in 2006 compared to 2005 (USD 1,765 million in 2006). As a result operating income margin increased to 27.5 per cent. Adjusted EBITDA increased by 32.7 per cent to USD 2,005 million (USD 1,511 million in 2005) and adjusted EBITDA margin reached 31.2 per cent.

**FINANCIAL RATIOS**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue, millions of US dollars</td>
<td>4,829</td>
<td>5,380</td>
<td>6,424</td>
</tr>
<tr>
<td>ROCE, %</td>
<td>30.92%</td>
<td>30.58%</td>
<td>34.99%</td>
</tr>
<tr>
<td>ROE, %</td>
<td>33.05%</td>
<td>25.75%</td>
<td>35.41%</td>
</tr>
<tr>
<td>ROACE, %</td>
<td>40.79%</td>
<td>25.58%</td>
<td>37.02%</td>
</tr>
<tr>
<td>Gross profit margin, millions of US dollars</td>
<td>40.34%</td>
<td>35.93%</td>
<td>40.74%</td>
</tr>
<tr>
<td>EBITDA, millions of US dollars</td>
<td>1,735</td>
<td>1,511</td>
<td>2,005</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>35.93%</td>
<td>28.09%</td>
<td>31.21%</td>
</tr>
<tr>
<td>EBIT, millions of US dollars</td>
<td>1,538</td>
<td>1,323</td>
<td>1,765</td>
</tr>
<tr>
<td>Operating income margin, millions of US dollars</td>
<td>31.85%</td>
<td>24.59%</td>
<td>27.48%</td>
</tr>
<tr>
<td>Net income margin, millions of US dollars</td>
<td>25.51%</td>
<td>17.60%</td>
<td>22.20%</td>
</tr>
<tr>
<td>Net Debt, millions of US dollars</td>
<td>(858)</td>
<td>(499)</td>
<td>440</td>
</tr>
<tr>
<td>Net Debt /EBITDA</td>
<td>-</td>
<td>-</td>
<td>0.22</td>
</tr>
<tr>
<td>Gearing, %</td>
<td>33.03%</td>
<td>17.33%</td>
<td>24.91%</td>
</tr>
</tbody>
</table>
INVESTMENTS
Rafkat S. Takhautdinov, Vice-President of LLC MMK Managing Company for Strategic Development, member of OJSC MMK Board of Directors:

“The employees of the Magnitogorsk Iron and Steel Works have a task not just to increase the production volume but deliver products which are required on domestic market and in demand on world market.

The ambitious revamping program under implementation at MMK is aimed at the expansion and modernization of productive capacity.

In the future we also will increase quality and expand product mix; all the investment projects are aiming domestic market first”.

Karl Gruber, Vice-Chairman of the Management Board of Siemens-VAI:

“We are satisfied with our fruitful collaboration with such a large company as MMK, and interested in a further promotion of our cooperation".
OJSC “Magnitogorsk Iron and Steel Works” implements the large-scale investment policy, which foresees the fixed production assets renewal and the new technologies implementation among all production divisions.

The capital construction costs for the period from 1996 to 2006 amounted to over USD 2.6 billion.

In 2005–2006, OJSC MMK committed annually over USD 500 million to the fixed production assets renewal. As a result in 2006, the modern EAF and long products facilities implementation were terminated.

The effects of 2006 Investment Program implementation allowed the following:
- provide for steelmaking of 12.5 million tonnes per year;
- reach the flat products share up to 68 %, keep the long products share at the level of 15 %, and as the result the low profit rate products production was minimized;
- increase the sales share in the domestic market up to 53.5 %;
- reduce the energy intensity per steel ton by 8.5 % in comparison with 2005;
- reduce the specific air emissions per steel ton by 11 % in comparison with the previous year.

The substantial decrease of low profit rate products share in sales from 14 % to 3 % was the result of the large-scaled revamping program implementation.

The long-term investment program for the period 2007–2010 is aimed to the revamping of the sintering, coke and blast furnace facilities. It will allow to reach the impact mitigation, to increase the production value, to improve the production quality to diminish the production costs by means of the following project implementations: shaft kiln for lime production, sinter stabilization facility, coke-oven plant, BLTs, the pulverized coal injection into...
blast furnaces. One of the most important modernization trends is the Plate Production Complex construction in which is included the new billet continuous caster installation in BOF shop and the "5000" plate hot rolling mill construction. Besides, the long-term investment program provides for the tin plate production facility revamping, the cold rolled band and the formed sections production facilities revamping, as well as the new production facilities start-up, which is allowing to produce the downstream products based on the rolled products supplied by OJSC MMK.

INVESTMENTS OF THE MMK GROUP’S PARENT COMPANY – OJSC MMK

Ore Dressing Plant

In the beginning of 2006 the construction of two sintering stabilization sections was starting in the ore dressing plant. One of which was started up in December 2006, the second sintering stabilization section construction shall be terminated in 2007. The new equipment allows obtaining the cooled sinter with the temperature of 100°C with the lower output of the sinter fines due to the aforesaid the quantity of the screening out sinter fines is reducing. To reduce the noxious emissions (dust and sulfur oxides, carbon and nitrogen) the revamping of the sulfur recovery plant # 4 have began in 2006. To provide high quality lime to the EAF production facilities, in 2006 the construction of the lime-roasting shaft kiln with the annual capacity of 140 thousands tonnes was commenced. 2007 Ore Dressing Plant Technical Development Program provides for the following:
1. Commissioning of the second sintering stabilization section.
2. Commissioning of the sulfur recovery plant # 4
3. The ore reclaimers installation in the concentrates yard to provide the stable qualitative characteristics of the sinter.

Blast Furnace Division

As a part of the Blast Furnace Division reconstruction, the first bell less top charging system was mounted and commissioned on one of the blast furnaces in 2006. In 2007 the bell less top charging systems installation and the nitrogen compressors renewal are planned for three blast furnaces. Due to the Chute Type Bell Less Top Charging Systems implementation, the following advantages would be allowed:
• the reducing of charging material distribution irregularity;
• the improvement of the gas utilization level, which would allow to decrease the coke consumption and to increase the blast furnace productivity and to reach the positive environmental impact. These measures would allow to decrease the total coke consumption by 8-10 kgs per ton of hot metal for blast furnace shop, then to increase the blast furnaces productivity by 2–3% and to improve the hot metal quality.

The change-over of the state-of-art charging system utilization in the existing blast furnaces impose the specific requirements for the sinter quality. Therefore the sinter plants reconstruction and the blast furnaces modernization are simultaneously carried out that would allow improving significantly the environmental situation. In 2007–2008 as a part of blast furnace shop revamping, the new state-of-art blast furnace will be constructed at the Blast Furnace # 9 site.

Coke and Chemical By-Products Division

In 2006, OJSC MMK began to the coke and chemical by-products division revamping, which would provide the coke furnace batteries renewal and the modern coke handling crab cranes installation, the first one is already commissioned in 2006. The Coke furnace batteries renewal is carried out considering the increased environmental requirements and the coke quality requirements. In 2006 the construction of new coke furnace battery with the capacity 1,140 million tonnes of coke per year was started, the design engineering works have been executed and the utilities carrying-over have been realized. In 2007, one more modern coke handling crab crane is scheduled for commissioning.
Oxygen Converter Shop (BOF shop)
In July, 2006 the new unit for the electrical arc steel heating was commissioned. This unit is designed for the steel temperature increase before the steel coming to the Secondary Metallurgy. Besides, this unit allows to perform the metal argon or nitrogen blowing, to make the temperature measurements and to make the metal sampling.

The ladle-furnace commissioning shall allow to extend the BOF secondary metallurgy section capabilities, to refuse the chemical heating technology, to decrease the pig iron consumption by means of the increase of the scrap rate in the burden. This unit commissioning would increase the oxygen converter life time, would provide the stable steel casting procedure, and would finally increase the products quality. The rated ladle furnace capacity is 4,125 thousand tonnes per year.

The modernization of the Automated Control System of Oxygen Converter # 3 is scheduled for 2007 to gain in utilization of the ferro-alloys materials in the steel making procedure.

EAF’s Division
In 2006 the scaled modernization of the electrical arc furnaces division was terminated. The new EAF shop was created based on the former open-hearth furnace shop. The outdated equipment was replaced by the high-tech unites that produced the competitive products, in 2006 were commissioned the following units:
- two electrical arc furnaces capacity of 180 t each, the total production capacity of which is 4 million tonnes per annum;
- “ladle-furnace” unit with the capacity of 2 million tonnes of steel per annum;
- Slab caster with the productivity of 2 million tonnes of slables per year.

The Steel-making Division modernization has allowed to decrease the adverse effect on the environment.

In 2007 the third “ladle-furnace” unit is scheduled for commissioning.

LONG PRODUCTS DIVISION
Long products division
In the beginning of 2006 the construction of two sintering stabilization sections was starting in the ore dressing plant. One of which was started up in December 2006, the second sintering stabilization section construction shall be terminated in 2007. The new equipment allows obtaining the cooled sinter with the temperature of 100°C with the lower output of the sinter fines due to the aforesaid the quantity of the screening out sinter fines is reducing. To reduce the noxious emissions (dust and sulfur oxides, carbon and nitrogen) the revamping of the sulfur recovery plant # 4 have began in 2006. To provide high quality lime to the EAF production facilities, in 2006 the construction of the lime-roasting shaft kiln with the annual capacity of 140 thousands tonnes was commenced.

2007 Ore Dressing Plant Technical Development Program provides for the following:
1. Commissioning of the second sintering stabilization section.
2. Commissioning of the sulfur recovery plant # 4
3. The ore reclaimers installation in the concentrates yard to provide the stable qualitative characteristics of the sinter.

Blast Furnace Division
As a part of the Blast Furnace Division reconstruction, the first bell less top charging system was mounted and commissioned on one of the blast furnaces in 2006. In 2007 the bell less top charging systems installation and the nitrogen compressors renewal are planned for three blast furnaces.

Due to the Chute Type Bell Less Top Charging Systems implementation, the following advantages would be allowed:
- the reducing of charging material distribution irregularity;
- the improvement of the gas utilization level, which would allow to decrease the coke consumption and to increase the blast furnace productivity and to reach the positive environmental impact. These measures would allow to decrease the total coke consumption by 8-10 kgs per ton of hot metal for blast furnace shop, then to increase the blast furnaces productivity by 2–3% and to improve the hot metal quality.

The change-over of the state-of-art charging system utilization in the existing blast furnaces impose the specific requirements to the sinter quality. Therefore the sinter plants reconstruction and the blast furnaces modernization are simultaneously carried out that would allow improving significantly the environmental situation.

In 2007–2008 as a part of blast furnace shop revamping, the new state-of-art blast furnace will be constructed at the Blast Furnace # 9 site.

Coke and Chemical By-Products Division
In 2006, OJSC MMK began to the coke and chemical by-products division revamping, which would provide the coke furnace batteries renewal and the modern coke handling crab cranes installation, the first one is already commissioned in 2006.

The Coke furnace batteries renewal is carried out considering the increased environmental require-
ments and the coke quality requirements. In 2006 the construction of new coke furnace battery with the capacity 1.140 million tonnes of coke per year was started, the design engineering works have been executed and the utilities carrying-over have been realized.

In 2007, one more modern coke handling crab crane is scheduled for commissioning.

Steel-making Division

Oxygen Converter Shop (BOF shop)

In July, 2006 the new unit for the electrical arc steel heating was commissioned. This unit is designed for the steel temperature increase before the steel coming to the Secondary Metallurgy. Besides, this unit allows to perform the metal argon or nitrogen blowing, to make the temperature measurements and to make the metal sampling.

The ladle-furnace commissioning shall allow to extend the BOF secondary metallurgy section capabilities, to refuse the chemical heating technology, to decrease the pig iron consumption by means of the increase of the scrap rate in the burden. This unit commissioning would increase the oxygen converter lifetime, would provide the stable steel casting procedure, and would finally increase the products quality. The rated ladle furnace capacity is 4,125 thousand tonnes per year.

The modernization of the Automated Control System of Oxygen Converter # 3 is scheduled for 2007 to gain in utilization of the ferro-alloys materials in the steel making procedure.

EAF’s Division

In 2006 the scaled modernization of the electrical arc furnaces division was terminated. The new EAF shop was created based on the former open-hearth furnace shop. The outdated equipment was replaced by the high-tech unites that produced the competitive products, in 2006 were commissioned the following unites:

• two electrical arc furnaces capacity of 180 t each, the total production capacity of which is 4 million tonnes per annum;
• “ladle-furnace” unit with the capacity of 2 million tonnes of steel per annum;
• Slab caster with the productivity of 2 million tonnes of slabs per year.

In 2007 the third “ladle-furnace” unit is scheduled for commissioning.
Long products division

In 2006 the reconstruction of the long products division came to its end: OJSC MMK finished erecting Long Products Mill “170” with the production capacity of 765,000 tonnes per year.

Starting to operate this Wire-Rod Mill “170” OJSC MMK completed the creation of the most state-of-the-art long products division in Russia. The facilities include three new long products mills of the total capacity of 2.1 million tonnes per year, which are able to produce wide product range. In 2006 OJSC MMK produced 80% of potential product mix. New long products of OJSC MMK are of high quality and can successfully compete on the global market.

Hot rolled products

Mill “5000”

In 2006 OJSC MMK commenced the creation of plate production division including:
- Mill “5000” with the production capacity of 1.5 million tonnes per year. The manufacturer of the equipment is SMS DEMAG (Germany);
- Billet Caster in the BOF Shop.

The consumers of the products produced by this mill will be the pipe industry (to produce single-welded pipes of Ø 1,420mm for oil and gas industry), bridge building, shipbuilding, boiler fabrication and other heavy industries.

Commissioning of the mill is planned for 2009.

Rolling Shop # 4

As part of the reconstruction of Rolling Shop # 4 in 2006 the following had been implemented:
- PCS system to operate Hot Rolling Mill “2500”;
- Laminar cooling system on the delivery table.

These measures allowed gaining the set mechanical and geometrical properties of the rolled products due to automation and cooling systems implemented.

In 2007 the preliminary engineering preparing the next phase of reconstruction of Hot Rolling Mill “2500” will be performed. The objective of the reconstruction is to increase the production of hot rolled coils from 3.5 million to 5.5 million tonnes including the broadening of the product mix by thickness from 1.8–12 mm to 1.2–25 mm.

Rolling Shop # 10

In 2006 as part of the implementation of the programme targeted to increasing the production of hot rolled strip produced by Hot Rolling Mill “2000” up to 6 million tonnes per year and enhancing the quality of the finished products.

Completion of the reconstruction is planned for the year of 2007.

Cold rolled products and downstream products

Rolling Shop # 5

In 2006 as part of the reconstruction of Rolling Shop # 5 new slitting line was commissioned, the capacity of which is 360,000 tonnes.

In 2007 for the purpose of enhancement of the surface quality of the strip (including the automotive strip) it’s planned to commission the wet skin pass system on Mill “2500”. To reach the target is planned by way of exclusion of “dirt imprints” defect on the surface of the strip when operating with grooved and textured rolls with the help of skin passing liquid sprayed on the surface of the working rolls and the strip.

Rolling Shop # 7

As part of the program dedicated to development of the downstream products OJSC MMK elaborated the development concept for Rolling Shop # 7 including the arrangements regarding to broadening the product mix produced on the profile bending mills and quality enhancement of the goods used in railway car building and car making companies.

In 2007 OJSC MMK plans to install the flying shears and start installing a new profile bending mill.

Coating Shop

In 2007 OJSC MMK is starting to construct the second hot dip galvanizing line with the production capacity of 450,000 tonnes per year. Implementation of this project will allow meeting the increasing demand of coated strip from the construction industry. The decision on construction of this line was taken on the basis of successful experience in operating the first hot dip galvanizing line commissioned in 2002.
Energy generating facilities development

OJSC MMK consistently upgrades its own energy facilities targeting maximum generation of its own power and recover of the secondary utilities. Expansion of its own utility base is done for the purpose of decreasing of the level of dependence on external power suppliers and the decreasing the production costs.

In 2006 OJSC MMK continued to construct new oxygen generating unit with the generating capacity of 35,000 m\(^3\) of industrial oxygen, 40,000 m\(^3\) of nitrogen of high purity and 1,000 m\(^3\) of pure argon per hour. Commissioning of this facility is planned for the year of 2008. Upon the commissioning of this unit OJSC MMK will enhance the reliability and quality of oxygen, nitrogen and argon supplies to the equipment installed in the EAF Shop and in Blast Furnace division of OJSC MMK.

The key lines of the capital investments of OJSC MMK in 2006

Implementation of the large-scale investment program of OJSC MMK will allow strengthening the position in the domestic and global markets due to broadening the product mix, quality improvement and decrease of production costs.

The key spheres of the OJSC MMK capex in 2006

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Million of USD (excluding VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDUSTRIAL CONSTRUCTION</td>
<td>523</td>
</tr>
<tr>
<td>Ore Dressing and Sinter Production Division</td>
<td>65</td>
</tr>
<tr>
<td>Sinter Stabilization Unit of Sinter Plant # 3</td>
<td>59</td>
</tr>
<tr>
<td>Sinter Stabilization Unit of Sinter Plant # 2</td>
<td>3</td>
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<tr>
<td>Shaft furnace to roast the lime</td>
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<td>Others</td>
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<tr>
<td>Coke &amp; Chemical By-Products Division</td>
<td>10</td>
</tr>
<tr>
<td>Coal handling grab crane #2</td>
<td>7</td>
</tr>
<tr>
<td>Coke Battery 11 bis</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
</tr>
<tr>
<td>Blast Furnace Division</td>
<td>30</td>
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<tr>
<td>Bell-less Top Charging System</td>
<td>28</td>
</tr>
<tr>
<td>Fines screening unit in Blast Furnace 6</td>
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<tr>
<td>Steel Making Division</td>
<td>282</td>
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<tr>
<td>BOF Shop. Twin position LadleHeating Unit</td>
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<tr>
<td>EAF Shop</td>
<td>265</td>
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<tr>
<td>Long Products Division</td>
<td>60</td>
</tr>
<tr>
<td>Wire Rod Mill “170”</td>
<td>49</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
</tr>
<tr>
<td>Hot Rolling Mills</td>
<td>8</td>
</tr>
</tbody>
</table>
COLD ROLLED PRODUCTS AND DOWNSTREAM PRODUCTS

Investment Activity of OJSC “MMK-METIZ”

Production of High-Strength Fastening Hardware
In 2006 the up-to-date complex of cold-upsetting and thread-rolling equipment has been installed in OJSC “MMK-Metiz”. In 2007 the surface impregnation line is scheduled to commission. All that shall provide to produce the wide range of high-strength self-tapping screws for fastening of gypsum board liners and fibre-reinforced gypsum panels. The “Iman Pack” line for packing of the fastening hardware in carton, corresponding with the world standard has been purchased and installed as well.

Production of the high-strength stabilized reinforcing steel
In 2006 the Complex of Equipment for production of the high-strength reinforcing wire, including the drawing mill and wire stabilization line has been installed in OJSC “MMK-METIZ”. The products of the Complex have a strong demand on the part of the companies form the building sector, producing the steel construction, producing steel structures from the pre-tensioned concrete.

Production of Flux Cored Wire
JSC “MMK-METIZ” has entered into the Contract for the delivery of the Line for production of flux cored wire “LIP 10-19”. The line shall provide to completely satisfy requirements of OJSC MMK in the flux cored wire, excluding the wire of the FeCa 60/40 grade. The commissioning is scheduled for 2007.

Production of Electrodes
The up-to-date production line for electrodes production has been purchased in order to increase production of electrodes up to 5 thousand tonnes per year. The putting into operation of this line is scheduled for 2007.

Investment Activity of OJSC “MTSOZ”

Environmental Activity
Within the framework of the program on improvement of ecological situation in 2006 the electrostatic precipitator after reconstruction and a new bag collector of the drum dryer have been put into operation at OJSC “MTSOZ”. The gas cleaning effectiveness by means of the new bag collector amounts to 99%.

Investment Activity of OJSC Schelkovsky Zavod “Spetsmontazhizdelie”
In 2005 OJSC MMK has acquired the share holding of OJSC Schelkovsky Zavod “Spetsmontazhizdelie”. Based on the plant, it is scheduled to create the service centers and processing of the color coated steel products. In 2006 the cold-forming facilities have been obtained, by means of which in the first half of 2007, it is planned to start the production of the following:
• Corrugated boards,
• Metal tiles,
• Siding and additional components,
• Structural shapes,
• Sandwich panels.
### Basic Trends in the Technical Development of Companies of OJSC MMK Group in 2006

#### Basic Trends in the Technical Development of Companies of OJSC MMK Group in 2006

<table>
<thead>
<tr>
<th># Serial number</th>
<th>Name of Company</th>
<th>Capital Investment</th>
<th>Lease Payments</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>million USD without VAT</td>
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<tr>
<td><strong>Companies of the Production Enterprise</strong></td>
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<tr>
<td>1.</td>
<td>CJSC “Ogneupor”</td>
<td>2.0</td>
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</tr>
<tr>
<td>2.</td>
<td>OJSC “MMK-Metiz”</td>
<td>7.8</td>
<td>7.3</td>
</tr>
<tr>
<td>3.</td>
<td>CJSC “Stroitelnii Complex”</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>LLC “Emal”</td>
<td>0.1</td>
<td></td>
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<tr>
<td>5.</td>
<td>CJSC “MRK”</td>
<td>1.7</td>
<td>8.3</td>
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<tr>
<td>6.</td>
<td>CJSC “NPO Avtomatika”</td>
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</tr>
<tr>
<td>7.</td>
<td>LLC “Remput”</td>
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<td>8.</td>
<td>CJSC “MZPV”</td>
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<td>9.</td>
<td>LLC “Shlagservice”</td>
<td>0.6</td>
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<td>10.</td>
<td>OJSC “MTSOZ”</td>
<td>3.9</td>
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<td>11.</td>
<td>CJSC “Elektroremont”</td>
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<td>12.</td>
<td>LLC “ATU”</td>
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<td>13.</td>
<td>CJSC “RMK”</td>
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<tr>
<td>14.</td>
<td>LLC “MRK-Remont”</td>
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<td></td>
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<td>15.</td>
<td>CJSC “Mechanoremont”</td>
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<tr>
<td>16.</td>
<td>OJSC “Spetsmontazhizdelie”</td>
<td>12.2</td>
<td>1.1</td>
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<tr>
<td><strong>Total on Companies of the Production Enterprise</strong></td>
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<td><strong>33.4</strong></td>
<td><strong>24.1</strong></td>
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<tr>
<td><strong>Other Companies</strong></td>
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<tr>
<td>17.</td>
<td>CJSC “Stroitelnii Fond”</td>
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<td>0.3</td>
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<tr>
<td>18.</td>
<td>LLC “Minimax”</td>
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<td>19.</td>
<td>CJSC “Tamozhenny Broker”</td>
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<tr>
<td>20.</td>
<td>LLC “Polygraphia”</td>
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<td>21.</td>
<td>LLC “UK MMK-Kurort”</td>
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<td>22.</td>
<td>LLC “GLTS Metallurg-Magnitogorsk”</td>
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<td>23.</td>
<td>LLC “Aquapark”</td>
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<td>24.</td>
<td>LLC “Abzakovo”</td>
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<td>25.</td>
<td>LLC “Sanatorium Yubileiniy”</td>
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<td>26.</td>
<td>LLC Sanatorium “Berezki”</td>
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<tr>
<td><strong>Total on Other Companies</strong></td>
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<td><strong>3.1</strong></td>
<td><strong>0.3</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>36.5</strong></td>
<td><strong>24.4</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td><strong>60.9</strong></td>
<td></td>
</tr>
</tbody>
</table>
RISK MANAGEMENT
OJSC MMK Group realizes the risks and exposures in the course of financial and economic activities. The main target of MMK’s risk management system is to assure strategic and operative stability and soundness of Company’s business by means of risk level maintenance within the set limits.

OJSC MMK Group introduces a comprehensive system for risk management. At the first stage the risk management system is created at the parent company – OJSC MMK, in 2008 the OJSC MMK Group comprehensive system for risk management is scheduled to be implemented.

Main principles of risk management:

- Risks are managed in line with OJSC MMK’s strategy formation and its implementation at all management levels and in all functional and project directions;
- All significant risks which can have an adverse impact on achievement of the OJSC MMK charter purposes shall be subject to identification, continuous evaluation, recording and registration;
- Efforts coordination of Risk Management Administration of OJSC MMK is executed by the LLC MMK Managing Company Vice-President for Property Administration;
- Risk management system is an integral part of the Company management system;
- The risk management system of OJSC MMK consists of the rules and procedures ensuring anticipation, rapid adjustment and minimization of dangers to Company’s interests;
- OJSC MMK has established a Risk Management Division, implements the comprehensive risk management system, and has approved a policy and a standard for risk management. MMK has elaborated a 2007 Risk Map in order to provide a monitoring of main risks of the company, as well as work out and implement economically founded measures aimed at the risk minimization.

MMK’s achievements in risk management were acknowledged

In 2006 MMK was a winner in Expert RA Rating Agency’s “Best Risk Management Project in Russian Enterprises” Contest in the nomination “Best Financial Risk Management Project in the non-financial sector companies”.

MMK’s experience in build-up of comprehensive risk management system was awarded with the “PriceWaterHouseCooper’s Choice in Risk Management Diploma”.

THE MAIN RISKS SIGNIFICANTLY INFLUENCING MMK’S ACTIVITIES:

Dependence on raw materials base

Due to the fact that OJSC MMK does not have its own raw materials base there is the risk of limitation of main raw materials supplies by the suppliers. For the purpose of decreasing such risk OJSC MMK takes measures to secure raw materials supplies, i.e. raw material market monitoring, development of long-term contracts with the suppliers, procurement diversification, development of projects for acquiring iron ore and coal assets.

Price Risk

OJSC MMK recognizes the significance of risk of price changing for steel products and consumable raw materials. The key measures to decrease the level of such risk are the following: output of products of great demand and higher value added products, monitoring of steel products market price trends, monitoring of prices and tariffs for the key raw materials, tender-based selection of suppliers, in certain cases- conclusion of fixed price based long-term contracts, internal costs management, and development of upstream integration.

Market Changes

(technical requirements/ trends/ competitor’s new products in the market and etc)

The main criteria for such risks are the consumer’s changes of their requirements and the competitor’s new products in the market. OJSC MMK determines this risk as a significant one for the long-term outlook. The main orientations for decreasing this risk are: strategic market analysis, updating of the processes, development and implementation of new technologies and products, client relation management.

Property Risk

OJSC MMK is aware of presence of the risks related to the losses resulted from production accidents. MMK maintains full insurance coverage of its property assets in “SKM” Insurance Company with further re-insurance in largest European (English and German) reinsurance markets.

Credit Risk

When working with the clients OJSC MMK is geared towards large, safe and solvent customers. The lion share of sales is executed on advance payment terms thus eliminating the payment risks related to product shipments.

The credit sales are executed with the bank guarantees and coverage by way of buyer’s liquid assets pledge. Besides, while selling on credit, the Company evaluates the credit rating of the customer in order to minimize the risk. These measures as well as a competent legal support should provide to minimize the risk of nonpayment.

Currency Risk

Approximately 50% of the steel products, manufactured by MMK, are exported and there is a possibility of getting less profit due to the changes of the exchange rates for the expected currency flows.

Since the major currencies used in the export transactions are the US dollar and euro and currency liabilities of the Company are expressed in USD and EUR, the main method of protection from the currency risk in relation to the liabilities denominated in foreign currency is maintaining of the optimum equilibrium (ratio) of the assets and liabilities of the Company denominated in the
same currency. OJSC MMK has a possibility to bring down the currency risks by adjusting the volume and the maturity of the currency assets and liabilities and also by using the hedging instruments (forwards and options). The permissible level of currency risk has been established at OJSC MMK.

**Liquidity Risk**

This risk arises due to time differences in the collection of assets and repayment of obligations.

Throughout 2001-2006 OJSC MMK kept its current liquidity and cover ratio at a high level. Short- and medium-term planning (budgeting) of cash receipts and payments allows the Company to perform its obligations on time and in full.

The ratio of the Company’s most liquid assets to liabilities attests to high solvency and a correspondingly low liquidity risk.

**Project Risk**

During implementation of its investment program OJSC MMK is exposed to risks associated with not receiving profits due to uncertainty in the main indicators of a project and environment.

In order to reduce this risk, MMK performs a financial and economic appraisal of effectiveness and risk analysis of the project, taking uncertainties into account, during the project development stage.

**Operating Risk**

Operating risk is a risk associated with the inefficient making of business processes, procedures of internal control or management systems.

The clear allocation of authorities to ensure that decisions are economically justified is fundamental to reducing operating risk at OJSC MMK. The well-regulated allocation of areas of responsibility ensures personal responsibility at all levels of management. The system for allocating responsibilities and authorities in the Company has been implemented through the introduction of some regulating documents.

**Industry specific and country risks**

OJSC MMK understands the term industry specific and country risks to mean the influence on sales and distribution policy of a number of external circumstances and factors such as economic downturn, trade barriers and quotas, etc. OJSC MMK tries to minimize such risks by monitoring tariff and quota restrictions on key and promising sales markets and adjusting its sales policy accordingly. OJSC MMK also pays close attention to its relations with state organizations, in order to develop an acceptable policy for development and support of Russian steel making industry as a whole and OJSC MMK in particular.
QUALITY MANAGEMENT SYSTEM
Quality Management at OJSC MMK is a constant activity, focused on the improvement of quality by means of raising the technical level of products, quality of its manufacture, technological modernization of its production facilities. Quality management includes the control, record keeping, analysis and decision making. The products of OJSC MMK produced and shipped to the domestic and export markers, meet the requirements of the normative documentation and expectations of the consumers.


For the first time in 2002 the Quality Management System of OJSC MMK has passed certification audit by RW TÜV (Germany).

OJSC MMK developed the Policy in the field of quality, determining the strategy and areas of activities for all staff.

Quality Management is the major orientation of General Policy of OJSC MMK for top managers and medium-level managers, as well as for each worker at his work place.

The main strategic task of OJSC MMK in the field of quality is output of high quality steel products, competitive in the world market and meeting the requirements and expectations of consumers.

According to the Policy in the field of quality the objectives with regard to quality are to be yearly established and controlled concerning the achievement of objectives.

In 2006 OJSC MMK has received the following certificates of conformity, once again confirmed by the auditors TUV NORD CERT (Germany), in accordance with the requirement of the following standards:

- ISO 9001:2000 for designing, development and production of limestone, lime, dolomite, break-stone, clay, sinter, pig iron, concast slabs for hot rolling, hot-rolled and cold-rolled coils, strip and sheets, cold-rolled strip, tin plate, galvanized rolled metal and colour coated rolled metal, electric-welded steel and galvanized pipes, steel roll-formed...
sections;
• ISO/TU 16949 for designing, development and production: cold rolled metal in coils, hot dip galvanized rolled products in coils and cold-rolled strip from low-carbon steel for the plants of automotive industry.

In 2006 the Quality Management System of OJSC MMK underwent the certification audit of the “Trans-cert” voluntary certification system (Moscow) in accordance with GOST R ISO 9001:2001 requirements, based on the results of which OJSC MMK has received the certificate of compliance of highest (third) level, evidencing the capability for output of products for the plants of Tube and Piping Industry.

OJSC MMK has received 21 certificates of conformity for OJSC MMK products, issued by the “Mosstroycertificatsiya”, “Russian River Register”, Lloyd Register, Germanischer Lloyd and the certificate of TUV NORD for the right of use of “CE” identification marking on the hot-rolled long products, strip and sheet from the structural steel of strength class S 235 to S 355 according to EN 10025-2.

Since 2006 the requirements of standard ISO 9001:2000 are to be applied to designing, development and production of all types of OJSC MMK steel products.

OJSC MMK plans to undergo the supervisory certification of OJSC MMK Quality Management System by the auditors of “TUV NORD CERT” (Germany).

Quality Management System at MMK Group of Companies

OJSC MMK contributes to the development and keeping of the Quality Management System in accordance with the requirements of international standards ISO 9001:2000 and GOST R ISO 9001-2001 at the MMK Group of Companies. This work realizes the strategic task of OJSC MMK Group: “to keep a long-term competitiveness and sustainable development of MMK Group of Companies”.

A Corporative Standard, regulating the order of interaction of OJSC MMK as a parent company and MMK Group of Companies, has been developed in OJSC MMK in relation to the quality management.

As of the end of 2006 Quality Management Systems of 12 companies from 57 companies of MMK Group have passed certification audit in accordance with the requirements of international standards ISO 9001:2000 and/or GOST R ISO 9001-2001. During the period 2007–2008 the other eight companies of OJSC MMK Group plan to undergo the certification of Quality Management System in accordance with the requirements of international standards.
### Qualitative Indices of Production for 2006

Main qualitative indices of OJSC MMK production have improved in 2006 in comparison with 2005.

<table>
<thead>
<tr>
<th>Name</th>
<th>Trend</th>
<th>Units of measure.</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COKE PRODUCTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fractional yield + 25 mm</td>
<td>increased</td>
<td>%</td>
<td>82.8%</td>
<td>85.0%</td>
</tr>
<tr>
<td>Fractional yield + 40 mm</td>
<td>increased</td>
<td>%</td>
<td>65.8%</td>
<td>67.9%</td>
</tr>
<tr>
<td><strong>SINTER PRODUCTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iron content</td>
<td>increased</td>
<td>%</td>
<td>56.23</td>
<td>57.39%</td>
</tr>
<tr>
<td>Uniformity on iron content</td>
<td>increased</td>
<td>%</td>
<td>89.4%</td>
<td>90.4%</td>
</tr>
<tr>
<td>Fines content (from 5 mm to 0 mm) in sinter</td>
<td>Decreased</td>
<td>%</td>
<td>11.0%</td>
<td>10.3%</td>
</tr>
<tr>
<td><strong>BLAST-FURNACE PRODUCTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coke rate</td>
<td>Decreased</td>
<td>kg/t</td>
<td>456.6</td>
<td>448.5</td>
</tr>
<tr>
<td><strong>STEEL-MAKING PRODUCTION (IN OXYGEN-CONVERTER SHOP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steel output according to the orders</td>
<td>Increased</td>
<td>%</td>
<td>96.84%</td>
<td>98.07%</td>
</tr>
<tr>
<td>Converters lining resistance</td>
<td>Increased</td>
<td>Heats</td>
<td>4,624</td>
<td>5,070</td>
</tr>
<tr>
<td>Steel ladle lining resistance</td>
<td>Increased</td>
<td>Heats</td>
<td>105.8</td>
<td>108.6</td>
</tr>
<tr>
<td>Molds resistance</td>
<td>Increased</td>
<td>Heats</td>
<td>102.6</td>
<td>113.9</td>
</tr>
<tr>
<td><strong>PRODUCTION OF ROLLED PRODUCTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Through discharge coefficient of metal for production of the rolled product</td>
<td>Decreased</td>
<td>kg/t</td>
<td>1,090.8</td>
<td>1,081.9</td>
</tr>
</tbody>
</table>
STAKEHOLDER ENGAGEMENT PROCESS
Murtaza G. Rakhimov, President of Bashkortostan:

“Your beautiful city has its roots in steel production and is connected by friendly relations with Bashkortostan. Our mutual ties are expanding, with commercial turnover increasing every year. I am sure that our friendship will continue to become stronger”

From congratulatory address on the Steel-Maker’s Day, “Magnitogorsky Metall”, 15.07 2006

Pavel V. Krasheninnikov, Chairman of the Committee on Civil Criminal Arbitral and Procedural Legislation of the State Duma of the Russian Federation, Doctor of Juridical Science:

“The fast-flying years have transformed the way Magnitka looks, having turned what used to be a steppe with a tent town in the middle, into a modern comfortable city for people to live and rest in. All this has become possible thanks to the self-denying effort of MMK workers.

Production achievements of MMK steelworkers remain the key factor for the welfare of this region. That is why MMK’s anniversary is a special occasion for every Magnitogorsk citizen.”
Interaction with Shareholders and Investors

For the purpose of implementation of its Mission and effective operation, OJSC MMK is continually engaged with the following stakeholders:

- shareholders and investors;
- company’s employees and trade unions;
- Magnitogorsk citizens and inhabitants of the adjacent territories;
- consumers for the products, works and services of the Company;
- suppliers of the products, works and services to the Company.

The Management of the Company realizes to the full the fact that important problems facing OJSC MMK may be solved only by a well coordinated and high professional work of the staff. Therefore the Company’s policy is oriented to the development of personnel and creation of the favorable conditions for work and career.

Main interaction between OJSC MMK and its employees is maintained through the trade union of the Company. The main objective of the trade union organization of OJSC MMK is the social protection, protection of rights and interests of the employees. OJSC MMK trade union organization unionize 98.3% of the Company’s employees. The trade union numbers about 26 thousands of OJSC MMK employees, whereas total number of MMK’s trade union organization together with employees of “MMK” Group and retirees amounts to 90 thousands of people. OJSC MMK trade union organization is one of the largest organizations in mining-and-metallurgical trade union of Russia numbering 1.2 million of trade union members.

One of the main objectives of the trade union committee is the control over the execution of the collective bargaining agreement of OJSC MMK and Company’s employees, which determines the mechanism of management of social-labor relations regarding issues of salary, production, work discipline, work competition, occupational safety and health, work-rest schedule, education and advanced training, health services.

The trade union organization of OJSC MMK employees and Company Management are following the principles of social partnership which assume the principle of mutual respect for the standing of the parties, equality of rights and search for mutually acceptable solutions focused on accommodation of the interests of employees and the employer.

OJSC MMK in the field of relationship with the trade union and labor relations with the personnel entirely comply with the applicable law of the Russian Federation – Labor Code of the Russian Federation. The issues regarding provision of security of personnel labor rights are solved by negotiations and participation of the employees and their representatives in management of the company.

Another important function of OJSC MMK trade union is organization of social control over the occupational safety which also includes inspection of welfare buildings, medical centers, canteens. Trade union representatives take part in acceptance of the work wear and personal protective equipment.

The trade union committee supports the social work of OJSC MMK, renders assistance in organizing leisure time activities and health promotion for the employees and members of their families, cultural-mass work, work with the youth.

The trade union work in close contact with OJSC MMK management allows to meet successfully all the above mentioned objectives and virtually protect the rights of the employees.

Valentin F. Romanov, Rector of Magnitogorsk State University, Professor, PhD, Counsellor of Governor of the Chelyabinsk Region, Honorary Citizen of the Chelyabinsk Region:

“MMK is one of the few Russian companies which promotes the development of social sphere by all available means. With reference to our University I shall say that it is only thanks to MMK’s direct help that an internet education center, the first and the only one in the Urals, was set up in our University and is fully operational now. Thousands of teachers, educators and culture workers of the Urals Region have been retrained in the E-Education Center free of charge.”
Interaction with the Population of Magnitogorsk and Adjacent Territories.

**Interaction with Government Authorities.**

OJSC MMK assumes voluntary liabilities for the socially responsible behavior regarding the citizens of Magnitogorsk and adjacent territories. The list of socially meaningful programs include: health care and arrangement of occupational safety for the employees, environmental activities and efficient use of resources, personnel and local public development.

The representatives of the OJSC MMK management take active share in community involvement; many of them are elected to legislative bodies of the local and regional authorities, that allows to solve social problems of Magnitogorsk and adjacent territories efficiently and in time.

For the implementation of the corporate social policy OJSC MMK actively cooperates with the government authorities of Magnitogorsk, Chelyabinsk region and the Republic of Bashkortostan. The output of such cooperation includes the following:
- construction of new auto roads and road interchanges;
- development and extension of recreation areas both within Magnitogorsk territories and within conservation territories of Ural Mountains that are situated in Bashkortostan Republic and called “Ural Switzerland” for their beauty;
- effective implementation of the national projects in Southern Urals: establishment of new health facilities, sport facilities (from small sport and recreation centers to colossal Ice Palace), housing development, support for education.

OJSC MMK actively promotes scientific potential of Magnitogorsk and Chelyabinsk region. The Company works closely with Magnitogorsk State Technical University, Magnitogorsk State University and other institutions of higher education. They carry out research and development work, examine innovative technologies and develop new advanced types of products on OJSC MMK’s request. The Universities establish new laboratories, research centers and science parks with the direct involvement of the Company.

In 2006 OJSC MMK signed with the Government of the Republic of Bashkortostan an agreement which refers to the involvement of the both parties in the further development of cooperation on a long-term basis. According to this document the agreement shall contribute to “the establishment of economic, financial and legal conditions for the implementation of innovative and investment projects”.

Interaction with Product Consumers

OJSC MMK understands that efficient operation on the improvement of the product quality and development of the product mix is impossible without a full inverse relationship with the consumers of its products.

For the assessment of OJSC MMK product appreciation at the domestic market MMK makes yearly questionnaire study of the consumers on the basis of the accepted inside the Company standard for quality management system. In the questionnaire sent to the customer it is offered to evaluate the quality of the mill’s products (defects, tolerances, etc.), the level of client servicing (terms of execution of orders, consideration of customer’s question on quality, terms of payment and etc.). According to the results of questionnaires for the beginning 2007, the customers’ satisfaction level amounted to 0.79 against maximum rate 1. It should be mentioned that a strong positive dynamics of that rate is seen over the recent years.

Interaction with Suppliers

The main principle of interaction with the suppliers is the organizing mutually beneficial cooperation provided that the priority is given to the entities of MMK Group. For the assurance of the sustained high quality of the production OJSC MMK makes a careful selection of the suppliers. MMK holds tenders for the selection of suppliers for the raw materials, materials, services, that are not supplied by the companies of MMK Group.
PERSONNEL POLICY
Boris A. Nikiforov, Rector of the G.I. Nosov Magnitogorsk State Technical University, Professor, Doctor of Engineering, Honoured Researcher of the Russian Federation:

“Unfortunately, Russia occupies a modest position in the IT implementation rating of the Organization for Economic Co-operation and Development, and it’s completely at odds with the country’s scientific potential. It’s for this reason that I like MMK’s stand even better. Not only the Company invests in technological development and purchases new equipment but also focuses on innovations, promoting science and supporting higher education institutions. Our joint work results in a constantly improving system of training of highly-qualified personnel, which is obviously advantageous for both the Company and our University, and Magnitogorsk and the Urals Region in general.”
The main factor of the successful operation of any company, including MMK Group, is the maintenance of the production competitiveness, that is achieved both by improvement of the equipment and development of human capital. Amid high intensity of changes and severe competition the winner is the company which has the most qualified specialists. The Management of MMK Group defined the following priorities of the personnel policy:

- Development of human resources of the Company according to modernization of production and improvement of the management system.
- Investments in personnel according to rising requirements to its qualification.
- Provision of the high qualified personnel for the production and social development of the enterprise.
- Orientation for the social responsibility of MMK Group.
- Consolidation of the work status in MMK Group.

The personnel policy in the companies of MMK Group is build on the same for all Group principles. The issues of the headcount optimization, motivation and promotion of the personnel, improvement of the production and labor efficiency are considered and solved centralized.

NUMBER OF EMPLOYEES, LABOUR PRODUCTIVITY

Average number of employees of the OJSC MMK Group in 2006 amounted to 55,572 persons, registering a decrease of 3.9% in comparison with the figures for the year 2005. The decrease of the number of employees has been related to the optimization of the structural scheme of the Group and transfer of the non-core functions to the companies outside the OJSC MMK Group.

The strongest human resources are accumulated by the parent company of the Group - OJSC MMK. Top managers, specialists and employees constitute 23.5% of the total number of personnel, workers – 76.5%. Over 83% of the employees of the OJSC MMK have special professional training. The mean age of the employees is 39 years and the average record of work at MMK equals more than 11 years. The employees of OJSC MMK are well educated, relatively young, but they already boast of significant expertise.

The prestige of having a job at the OJSC MMK is proved by low personnel turnover rate which is in the range of 4.5% - 7%. This rate at the OJSC MMK is by 20–30% lower than at the other major Russian steel companies.

Average monthly pay at the OJSC MMK Group in 2006 amounted to USD 533, an addition of USD 126 to the average monthly pay registered in the year of 2005 (increase of 31%).

TRAINING OF THE PERSONNEL

High level of wages, its stable growth, and the image of prosperous and stable enterprise make the OJSC MMK Group the attractive place of employment.

The labour productivity of the OJSC MMK personnel in 2006 amounted to 44.3 equivalent tonnes per one person and increased by 19.7% compared to similar periods of the previous year. The change of the labour productivity occurred due to:

- Production volume increase;
- Perfection of labour management (conducting the organizational technical measures, increasing the interested motives of the personnel in resulting effects);
- Realization of the programs on optimization of activity types, approved by the Board of Directors.

In 2004–2006 OJSC MMK took the leading position among the Russian steel enterprises on labour productivity.
Cooperation with educational institutions on the issues of specialists training for MMK

While solving the problem of highly qualified specialists’ reserves MMK strengthens the cooperation with Magnitogorsk State Technical University (MSTU) which is the base higher school for staffing in the sphere of target training of specialists for operating the up-to-date equipment. At present there are 11 faculties at MSTU (50 sub-faculties) which educate about 13 thousand of students. The MSTU graduates completely satisfy the MMK needs in specialists with higher education. MSTU specially for MMK trains the students on the following disciplines: technology of the rolling production, metallurgy and automation of the technological processes and production.

In addition to Magnitogorsk State Technical University the training of specialists for MMK is effected by the following higher schools: The Institute of Steel and Alloys (Moscow), the Urals State Technical University (Yekaterinburg), the Institute of metals’ physics (Yekaterinburg), the Urals State Legal Academy (Yekaterinburg), the South Urals State University (Chelyabinsk), the Chelyabinsk State University.

Apart from Higher Education Institutions OJSC MMK has associations with vocational lyceums which trains students in the fundamentals of metallurgy and operation and maintenance of equipment. OJSC MMK sponsored vocational lyceums training future MMK workers with over USD170,000. Almost 600 leavers of the vocational lyceums start working at OJSC MMK every year.

When applying for work at OJSC MMK job applicants are selected carefully (progress in studies and knowledge of the English language are taken into account).
Advanced Professional Training and Retraining of Personnel

OJSC MMK system of advanced professional training and retraining of personnel is meant for all kinds of workers. It includes training young specialists in accordance with the requirements of certain professions and training based on MBA programs.

When they start working, young specialists are assisted to adapt to the work at OJSC MMK and offered to consider promotion opportunities. Together with Corporate Staff Training Center "Personnel" OJSC MMK created programs for training of all kinds of reserve managers from shopfloor foremen to top managers ("Adaptation School for Young Specialists", "Young Leader School" and "Chief Specialists School"). MMK workers have to compete to join the mentioned educational programs.

OJSC MMK managers are promoted in accordance with certain competence requirements. For the purpose of the management staff training OJSC MMK collaborates with leading Russian Schools of Economy and Management such as the Academy of National Economy under the Government of Russian Federation, the State University of Management and the Stockholm school of economics. Besides, OJSC MMK is an active participant of the management training program of the President of the Russian Federation.

OJSC MMK sponsors its staff training and studying of technologies and facilities of rolling and steel production and technological-process automation in foreign and Russian educational centers to ensure obtaining the necessary skills to operate the new equipment.

OJSC MMK invested a total of USD2.8 million in advanced professional training and retraining of its personnel in 2006.

OJSC MMK places high emphasis on research and development. OJSC MMK employs 81 employees with PhD degree and 5 employees with D.Sc. degree. In 2006 29 employees started postgraduate studies and 5 people defended theses.

Personnel training system and its qualification meet the requirement of International Quality Management Systems. OJSC MMK project “Certification in competence-based formats” became the winner in category "HR planning and personnel development" in the competition "The best innovation project in personnel man-
agament" – “Golden HR” 2006. OJSC MMK was repeatedly awarded as a winner of the All-Russian competition “High social efficiency enterprise” in the Category “Personnel training and retraining”.

In 2006 the employees of the OJSC MMK Group were marked with various awards for high achievements in their work:

27 employees received the state awards of Russian Federation,
114 employees received the ministry awards (honorary titles, Honorary diploma of the Ministries of Russian Federation).

YOUTH POLICY

Today 6,835 young employees at the age under 30 years (26.6% of total number) are employed by OJSC MMK. Commitments of Company Administration in the sphere of work with young people are fixed in Collective Agreement of OJSC MMK and in the program named “Youth”. The conditions for finding the advanced young employees have been created for the purpose of their professional growth, formation of their qualities of a leader and involving young specialists in production control process.

The scientific and technical conferences of young specialists are being organized with the aim to develop a scientific and research potential in OJSC MMK. In 2006 the total number of conference participants was 1,300 people. With direct participation of young specialists 730 innovations with more than USD 2 million economic benefit were implemented into OJSC MMK production process which 13% higher than in 2005. 14% of total implemented innovation came from young specialists. 11 patents for invention and utility models and a PC program registration certificate were obtained, 20 applications for invention and utility models were filed.

OJSC MMK and Group of MMK Companies conduct the competition “The best young employee” among 36 professions. In 2006 more than 1,500 young employees from 34 divisions took part in the competition.

Since 2001 OJSC MMK realizes the program of “Gifted children of Magnitka”. The program participants study in the best Russian institutes of higher education: Moscow State University, Moscow State Institute for International Relations, D. Mendeleyev University of Chemical Technology of Russia, the State University of Management, the Academy of National Economy under the Government of Russian Federation, Moscow State Technical University n.a. N.E. Bauman, Saint Petersburg State University, South Ural State University. The participants of the program “Gifted children of Magnitka” may have practical training in OJSC MMK divisions and afterwards be employed by these divisions. In 2006 63 people took part in the program.
INDUSTRIAL AND OCCUPATIONAL SAFETY
The system for management of industrial and occupational safety is a part of general system of company management. It provides risk management in the field of industrial and occupational safety.

OJSC MMK, the parent company, plays the leading role in MMK Group to provide organizational management for industrial safety. OJSC MMK Labour Safety Administration renders methodological and consultative assistance to the companies of MMK Group - in 2006 in subsidiary companies there were 11 scheduled inspections of the condition of industrial and occupational safety in subsidiary companies.

In December 2004 OJSC MMK system for management of industrial and occupational safety was certified by Bureau Veritas Quality International (BVQI) for conformity with international standard OHSAS 18001:1999.

OJSC MMK has approved Industrial and Occupational Safety Policy. According to this policy the Company’s strategic objective is provision of healthy and safe conditions of work, industrial safety for hazardous facilities and technically acceptable and economically sound risk level.

OJSC MMK has developed and implemented the system for hazard identification, risk assessment and management in the field of occupational safety. The system is in force to prevent, be ready for and respond to emergency situations. The company conducts analysis of readiness level to localize and liquidate accident consequences. In 2006 the Company made 87 arrangements to improve conditions of work and industrial safety. Conditions of work have been improved for 2,166 employees.

In 2006 expenditures for industrial and occupational safety in production cost was 1.44% (in 2005 – 0.77%).

As a result of the actions to perfect industrial and occupational safety system the rate of traumatism and breakdown went down that can be seen from the 5 year trend.

In May 2006 OJSC MMK System for management of industrial and occupational safety was successfully audited by BVQI to comply with the international standard OHSAS: 18001:1999.

For the purpose of further development of corporate management system and regulation of interrelations within MMK Group, corporative standard “Coordination of activities of MMK group in the field of System for management of industrial and occupational safety” is being developed.
SOCIAL RESPONSIBILITY
Andrey A. Morozov, Vice President for Corporate Matters of MMK Managing Company, the Member of the Board of Directors of OJSC MMK:

“The high level of social responsibility contributes to the consolidation of the Company’s reputation and image, to the improvement of efficiency and investment appeal. OJSC MMK has gained long ago a reputation of a socially oriented company and for many years maintains its status by assuming a number of voluntary obligations to all parties concerned. The social policy became an integral part of MMK’s strategy that has accumulated great experience in project development and implementation of social programs, control of execution of such programs. Much attention is paid to the social security of MMK’s personnel and to the programs of local public development, including city’s infrastructure, support for all kinds of events and welfare work that allows solving the most painful problems and defusing social tension”.

Evgeniy V. Karpov, Head of the City of Magnitogorsk Administration:

“…MMK implements unprecedented social policy for the city and region regarding its quality and magnitude; one of its demonstrative confirmations is the prestige value of working for MMK. At the same time MMK’s activity, for example in medicine, sport, culture, in rendering support for the senior citizens, is far beyond the scope of the corporate level and constitutes significant and in many cases the brightest part of the city’s social policy…”

MMK Group has long since gained a reputation of social oriented company and during many years keeps up this status voluntarily undertaking a number of social obligations to its personnel, pensioners, partners, government, and local community. At the same time MMK Group aims to create common system of social benefits and guarantees for all employees. Priority directions of MMK social policy are:

- treatment and medical care;
- health improvement of its employees and their families;
- childhood and maternity protection program;
- housing programs;
- sports development program;
- targeted assistance of non-working pensioners, invalids and low income categories;
- charitable assistance and sponsor support of educational, medical, sports and cultural institutions.

Expenditures for OJSC MMK social programs in 2005-2006 were 9.4%–9.5% of labour compensation fund.

Treatment and medical care

Medical program realization is the major component of MMK social policy. OJSC MMK places high emphasis on development and expansion of preventive treatment programs. Today these programs include the following directions:

- the disease prevention work through the system of the plant aids posts and works policlinics;
- vaccination;
- issue of vitamins;
- improvement of medical services;
- introduction of new methods of diagnostics and treatment to the autonomous non-profit organization “Health Care and Sanitary Department of Magnitogorsk city administration and OJSC MMK”, arrangement of comfortable sanitation conditions of life at the work places.

The autonomous non-profit organization “Health Care and Sanitary Department of Magnitogorsk city administration and OJSC MMK” renders medical services for OJSC MMK employees. In 2006 OJSC MMK appropriated
**Health Improvement of the Employees and Members of Their Families**

Every year more than 11 thousand employees and members of their families take a rest in the sanatoriums and holiday centers of OJSC MMK, and more than half of this number passes the course of medical treatment. In 2006 the Company allocated more than USD 4 million in order to assist for the employees in purchasing the tickets. During the summer vacations 1,765 children of employees took a rest in two children’s recreational and educational centers of OJSC MMK. Expenditures connected with the compensation of tickets and maintenance of children’s recreational and educational centers amounted to USD 1 million.

**Marina V. Shemetova, Chief Physician of ANO Medical Unit of the City Administration and OJSC MMK, Doctor of Medical Science:**

“In the center of the social strategy of OJSC MMK is the human personality and its right for a healthy, creative and efficient life. The improvement of the health rates, including reproductive health, and the quality of life of the employees is the result of the current system of health protection. All these became possible owing to a continuous attention and sincere commitment of the Chairman of the Board of Directors of OJSC MMK, Victor F. Rashnikov.”

**Vladislav A. Tretyak, President of the Russian Hockey Federation, Member of the State Duma of the Russian Federation, the best hockey player of the XX century according to the International Hockey Federation, ten times Olympic Champion, nine times World Champion, nine times Europe Champion, thirteen times USSR Champion:**

“I'm very glad that one more beautiful ice sports palace was built in our country. What is more it was built in Ural that contributed many talented sportsmen to the world hockey. Russia nowadays more than ever is in need of men with strong characters. I'm sure that “Arena-Metallurg” of Magnitogorsk will bring up precisely such sportsmen.”

TV channel RTR-SPORT 12.01.2007

**Rene Fasel, President of the International Hockey Federation:**

“The new ice palace in Magnitogorsk is something special. To my point of view it will perfectly correspond to all standards for one of the leading clubs of Europe. ‘Arena-Metallurg’ has all the best what I have seen in new arenas in Check Republic, Finland, Swiss and Germany. I shall point out one thing: those who think about the construction of a new palace need to visit Magnitogorsk for sure to see everything with their own eyes.”

Sport-Express, 13.01.2007

Companies of MMK Group have developed and are implementing programs of corporative and voluntary medical insurance. To finance these programs in 2006 OJSC MMK appropriated USD 6 m. By the end of the year more than 93% of employees entered into the agreements of individual voluntary medical insurance which allow them to get medical care of a better quality. In 2006 124 employees of MMK Group underwent treatment in Russian and foreign clinics and more than USD 450 thousand were appropriated within the frame of corporative voluntary medical insurance. 5,025 employees got dental health service on preferential terms for the amount of USD 350 thousand.
**Preservation of reproductive health of the employees – maternity, paternity, childhood care**

OJSC MMK realizes the target program “Preservation of reproductive health of the employees – maternity, paternity, childhood care” as a part of the target programs of the regional level (“Children of the South Urals”) and municipal level (“Healthy child”). The main tasks of the program are stimulation of birth rate, maternity, paternity and childhood support, rendering the assistance in the issue of family planning and reproductive health.

In 2006 about USD 900 thousand were allocated for the realization of the program on maternity support and stimulation of the birth rate. As of the end of 2006 every week 216 expectant mothers visited the “Maternity” center. As a result of the realization of the program on maternity support and stimulation of the birth rate and the increasing quality of prenatal clinic’s activity, the tendency of growing birth rate is outlined (the growth by 15% compared to the periods before the program realization), the indexes of pregnancy course and labor have been improved.

**Sport**

Going in for physical culture and sport is one of the main components of the healthy way of life. That is why the formation of the necessity in regular going in for sport by the employees is the priority trend of OJSC MMK social program. In Magnitogorsk the developed infrastructure has been created for going in for sport and amusing the active leisure.

In 2006 more than 9,000 employees took part in winter and summer competitions. The competitions were held in 19 sport events. More than 500 top managers took part in...
Social support of the non-working pensioners, disabled persons and other low-income categories

Since 1988 OJSC MMK renders social support for single pensioners. The work with disabled persons, veterans and pensioners is based on address social support with the use of developed system of social purpose objects (shops, drugstores, center for medical-social rehabilitation, specialized house “Veteran”, personal services complex, café “Veteran”) of the Metallurg Social Public Charity Fund.

Culture

The key role in the organization of the cultural life in OJSC MMK is played by the Palace of Culture named after S.Ordzhonikidze and the Palace of culture and technique. In 2006 USD 900 thousand were invested for conducting culture-mass events for the OJSC MMK employees and for the maintenance of the Palaces of Culture.

Great attention is paid to the support of the talented youth. There are 31 amateur groups in the Palace of Culture named after S. Ordzhonikidze, in which 905 people participate (342 children and 563 adults). There are 24 amateur groups of 448 participants in the Palace of culture and technique. The palaces arranged 1,255 festival events, both in the palaces and on the working sites.

Housing

The companies of the OJSC MMK Group create the conditions for purchasing the apartments subject to different types of payments by installments and mortgage credits.

The realization of the housing programs is effected by the housing-investment fund “Klyuch” (HIF Klyuch). During the construction period the employees make installments for the housing construction to HIF Klyuch, and complete payment for the apartment before occupancy is effected subject to the mortgage credit, with execution of the purchased apartment as a mortgage. The credit is given by OJSC Credit Ural Bank with maturity up to 15 years (for young employees – up to 27 years).

In 2006 the house with 168 apartments and total space of 10,800 m² was built and occupied. In July 2006 the construction of three apartment houses with 420 apartments and total space of 29,740 m² began.

In 2006 113 employees of OJSC MMK Group improved their housing conditions with the support of HIF Klyuch.

As a part of the national project realized in Russia “Available and comfortable housing” the program “Support for the young families in purchasing the apartment” is acting since 2006. The selection of the program participants is effected subject to the results of the competitions on workmanship and of scientific and technical conferences. Annually 30 young families receive subsidies in the amount of USD 3 thousand and the possibility to purchase one-room apartment at a lower price.

This program is an additional incentive for improving the workmanship and creative activity of the young employees of OJSC MMK.

Social support of the non-working pensioners, disabled persons and other low-income categories

In water park “Vodopad Chudes” 32 sport festivals were held, in which about 10 thousand people took part.

In 2006 USD 1.8 million were invested for maintenance of the “Metallurg-Magnitogorsk” sport club and conducting sport-mass activities.

In 2006 664 corporate outings to “Abzakovo” and “Magnitogorsk-Metallurg” skiing centers were organized.

Winter and summer competitions, each of them being held in six sport events.

The realization of the works’ social order for developing mass physical culture and sport and formation of healthy way of life is effected by the “Metallurg-Magnitogorsk” universal sport club. In 2006 86 sport festivals were held on sport sites and objects of the sport club, in which more than 40 thousand employees of OJSC MMK Group and the members of their families took part.
Charity Activities

OJSC MMK invests considerable funds for the development of city and adjacent territory infrastructure. OJSC MMK supports and assists the public associations working with disabled persons, children and low-income families, educational institutions, medical institutions, cultural and sport institutions, law enforcing agencies, religious communities. In 2006 USD 6.9 million of the company's profit were spent for charity activity. The most significant and great of it is the cooperation program with Chelyabinsk branch of Russian Children's Fund – USD 4.9 million.

In 2006 as a result of fruitful coordination of OJSC MMK and the government of the Chelyabinsk region the new ice-hockey palace "Arena-Metallurg" was built. The sport complex satisfies all the up-to-date requirements for similar constructions and its technical equipment is highly competitive with the best NHL arenas.

In 2006 USD 5.5 million were invested for the program of social support of veterans and invalids (USD 4 million from the company's profit, USD 1.5 million subject to financing scheme through "Aktsioner" Charity Fund). As a part of this program about 20 thousand of non-working pensioners and disabled persons received the monthly welfare for the total amount of USD 3 million. USD 1.6 million were spent for address assistance (medical treatment and complex surgery operations, tickets to the sanatoriums, assistance in emergency cases, holidays, funerals and others).
ENVIRONMENTAL PROTECTION
The production activities of the MMK Group are carried out in accordance with the requirements of the environmental legislation of the Russian Federation. Seven of the companies of the Group have implemented and successfully maintain the Environmental Management Systems that meet the requirement of the International Standard ISO 14001:2004. The Environmental Management Systems of other four companies have the certificates of compliance.

Environmental Policy

While planning the long-term stable development MMK focuses on the issues of the protection of the environment. The Environmental Policy of OJSC MMK defines the long-term targets in the field of environmental protection:
- decrease of pollutants emissions into the atmosphere;
- decrease in the volume of disposal of pollutants into the artificial lake of Magnitogorsk and Ural River;
- prudent management of natural resources and energy resources disposal/recovery of the industrial waste.

The implementation of the environmental measures in 2006 has allowed reaching the following goals defined in the Environmental Policy:
- total emissions of pollutants into the atmosphere decreased by 3.700 tonnes (1.4 %) in comparison with the year of 2005.
- The total volume of pollutants disposal into the artificial lake of Magnitogorsk and Ural river in comparison with 2005 decreased by 2.498 tonnes (6%);
- Power consumption for industrial process at OJSC MMK as compared to the year of 2005 decreased 8% and now amounts to 5.98 Gcal for a tonne of steel;
- 3.55 million tonnes of metallurgical slag were processed and 6.86 million tonnes of waste products were used for the reclamation of the mining pits;
- The land rehabilitation activities stretched over the territory of 9.7 hectares.

Environmental Events of 2006

Within the framework of the implementation of the Environmental Policy the Company has approved and maintains the Long-term Environmental Programme of OJSC MMK for the years 2006–2015. The year of 2006 saw the implementation of 67 technical events aimed at decrease and prevention of the negative influence on the environment. The most important events are listed herebelow:
- Construction and revamping of the of the environment protection facilities (gas purification units and re-circulating water supply systems) in the EAF Shop;
- Revamping of the four absorption systems of the desulphurization units for treatment of sinter gases and construction of the gas treatment system at the sinter stabilization unit at the Sintering Division;
- Replacement of the two-cone charging unit at the blast furnace with bell-less top charging system manufactured by Paul Wurth.
**Expenditures for the Environmental Activities**

OJSC MMK in 2006 has spent USD 85.5 million for environmental protection activities (exceeding the previous year figures by 12%).

**Allocation of funds for environmental activities, USD million**

<table>
<thead>
<tr>
<th>Main directions</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of the environment protection facilities</td>
<td>43.4</td>
<td>52.2</td>
</tr>
<tr>
<td>Overhauls of the environment protection facilities</td>
<td>3.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Maintenance of environment protection facilities</td>
<td>29.2</td>
<td>27.6</td>
</tr>
<tr>
<td>Research and Development in the filed of the environmental protection</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76.2</strong></td>
<td><strong>85.5</strong></td>
</tr>
</tbody>
</table>

The expenditures of the MMK Group for the protection of the environment in 2006 totaled approximately USD 90 million.

**EFFECTIVE STRENGTH OF THE ENVIRONMENTAL ACTIVITIES**

The principal direction of the environmental activity of OJSC MMK is the protection of the atmospheric air. The strategy for diminishing the negative effect on the atmospheric air is based on utilization of the air protection technologies in the course of construction and revamping of the existing production facilities and simultaneous putting out of operation of obsolete and worn out equipment. The implementation of such strategy provided for a stable downward trend of emissions of pollutants into the atmosphere.

Strategy of OJSC MMK for protection of the water bodies is directed towards the increase of the share of recirculated water for the needs of industrial water supply. The systems of water supply and water discharge at the OJSC MMK are based on the unique recirculation system comprising the water treatment plants, local recirculation cycles, hydraulic engineering networks and pump stations. In 2006 the percentage of the recirculated water usage amounted to 96.5% of total water consumed for production purposes. The volume of intake of the fresh technical water in comparison to the year of 2005 decreased by 0.5%. The implementation
Dynamics of the total emissions of pollutants into the water bodies

OJSC MMK pays considerable attention to the comprehensive activity aimed at processing of industrial wastes, reclamation of land and site territory improvement. In 2006 the crushing and screening plants of the Company processed 3.55 million tonnes of metallurgical slag recovering 0.46 million tonnes of the metallic content. The processes slag was sold to the customers operating in the fields of road construction, civil and industrial construction. The technical stage of backfilling of the exhausted ore mining pits at the Magnitnaya mountain consumed 6.85 million tonnes of the industrial waste; the volume of slag dumps decreased by 3.21 million tonnes. The works for improvement of the site territory (removal of industrial waste and lawn making) were carried out over the territory of 9.74 hectares. In the course of the reported period 12.55 hectares of the site were also improved by planting of 5.1 thousand of trees and 8.9 thousand of bushes.

The ferrous metallurgy is an energy-intensive industry. Generation of electricity, extraction and transportation of energy utilities produces a substantial effect on the environment. That is why the increase in efficiency of the production processes at OJSC MMK in terms of energy consumption is very important from the point of view of the environmental protection. Introduction by the Company of the new technologies including continuous casting of the whole amount of steel produced, putting in operation of electric arc furnaces, installation of the bell-less top charging system on the blast furnace in recent years allowed to decrease the specific consumption and thus to further minimize the negative impact on the environment.
INTELLECTUAL PROPERTY, RESEARCH AND DEVELOPMENT
The innovative developments of the company's employees provide for growth of production, improvement of the quality of the products, better working environment and industrial safety. Adoption of the new equipment and new technologies in the production processes has a significant effect on the Company's activities and strengthens its competitive edge.

INTELLECTUAL PROPERTY
OJSC MMK effectively performs intellectual property management, including the following:
- creation of the Company's intellectual property rights portfolio,
- observance of the rights and interests of the Company as a patent holder and trademark owner,
- sale of intellectual property in the Russian and international markets.

The activities of OJSC MMK provide for:
- creation of organizational, legal and economical conditions for creation and effective implementation of technical innovations and improvement proposal sand other intellectual property in the Company's business;
- provision of incentives for inventive and rationalization activities observance of rights and interest of the inventors and development engineers.

OJSC MMK is the holder of 165 legally effective patents for inventions, 166 patents for useful models and 28 official registration certificates for PC software.

In 2006 OJSC MMK:
- obtained 104 for inventions and useful models, 4 registration certificates for PC software;
- implemented 76 inventions and useful models;
- economic benefits attained as the result of implementation of the inventions, useful models and improvement proposals into production processes amounted approximately to 42 million US dollars.

In 2006 the Company's patents were awarded:
- One gold medal and two silver medals at the VI International Salon of Innovations and Investments.
- Grand-prix “Golden Archimedes” for the aggregate research developments presented and Diplomas of Honour and Gratitude for active participation in preparation and implementation of IX International Salon of Industrial Property “Archimedes - 2006”
- Two bronze medals at 34th Salon International Invention in Geneva.
- Two Diplomas of the First Degree at the XI Exhibition – Congress “Hi-Tech. Innovations. Investments”.
- One gold medal and two bronze medals at the 58th International Exhibition of innovations “IENA-2006” in Nürnberg.
- Two gold medals, two silver medals and three Diplomas at the International Exhibition “Metal Expo 2006.”

RESEARCH AND DEVELOPMENT
At OJSC MMK the choice of priorities for scientific research and R&D program for the year is determined in accordance with the long-term technical upgrading program. Research and development activities are performed both in-house and with participation of the outside scientific and research organizations. In 2006 OJSC MMK had 109 contracts with 41 outside organizations for research and development, process and front end engineering activities. Total expenditures for R&D activities amounted to USD 4.4 million.

It is expected that the highest benefits will be brought by the following R&D activities conducted in the year 2006:
1. Development for the specific conditions OJSC MMK of the special charging systems for blast furnaces equipped with bell-less top charging units and predictive maintenance software developed by Paul Wurth for improvement of performance indices of the blast furnaces.
2. Development and introduction of automated optimization system for blast furnace melting process.
3. Development and introduction of the unified data base of the state of the roller guides of the continuous casters.
4. Development of the process technologies (melting, casting, rolling) for the clean high carbon steel grades.
6. Use of the new optimization unit for production planning at OJSC MMK.
7. Enhancement of the strategy of the development of the steel works on the basis of modeling, forecasting and optimization of business processes.
One of the directions to increase the Company’s efficiency is the decrease the expenses due to implementation of information technologies. OJSC MMK was the first one in the Russian steel sector, who fully implemented the Corporate Information System (CIS) based on Oracle E-Business Suite (OEBS). The system covers nearly all activities of the Company, i.e. planning and budgeting, production, sales, procurement, maintenance and repairs, accounting and finances, investment projects, HR management, documents circulation when contract management and etc. Implementation of the corporate information system allowed to significantly increasing the efficiency of all corporate resources, e.g. to accelerate inventories and amounts in calculation turnover and to decrease products costs.

The efficiency of the results of the CIS implementation into OJSC MMK is highly valued by Mainstay Partners, the leader in evaluation of ROI into process solutions.

The contract between OJSC MMK and Oracle for development and implementation of the integrated corporate information system was signed in 2003. The project was successfully fulfilled within 18 months. Since November 1, 2004, OJSC MMK had started the commercial operation of the system. The development of the CIS system continued in 2005.
Boris I. Sherbakov, Vice President of Oracle Corporation, Head of CIS Office of Oracle Corporation:

“The flagship of the steel industry in Russia, Magnitogorsk Iron and Steel Works, needs 5 days for the financial closing after the commercial commissioning of the integrated system of company management on the basis of Oracle E-Business Suite. Currently more than 2000 of MMK’s employees are the users of this system. It covers almost all areas of business of OJSC MMK: planning and budgeting, production, sales, supplies, maintenance and repairs, accounting and financing, investment projects, personnel management, contractual activities, corporate management and other. The project of implementation of the system into OJSC MMK is even more important for us since this is the greatest full-scale implementation of Oracle E-Business Suite in Russian metallurgy. We are proud that the results of our business became the actual results of OJSC MMK business.”

Guennady S. Senichev, Vice President for Operations, MMK Managing Company, Executive Director OJSC MMK, Member of the Board of Directors of OJSC MMK:

“Two years of commercial operation of the Corporate Information System in OJSC MMK became the real confirmation of the viability and operation efficiency of the system. The data about MMK’s activity are reflected in the system on-line that allows to MMK’s managers to make the most efficient managerial decisions on the basis of the integrated source of information.

The Corporate Information System describes not only financial and operational results of MMK, but the system also monitors the whole process flow on-line, the working condition of all large mills and units, downtime and repair of the equipment.

Due to the possibility of the remote access into CIS the MMK Management can receive current and exact information about the work of the steel mill from any place in the world.”

and 2006. As of the end of 2006 more than 36 OEBS modules supporting the key business activities were implemented:

- HR management and calculation of wages;
- Finances and book-keeping;
- Inventories and procurements management;
- Sale of finished products;
- Expanded planning;
- Core production management;
- Budgeting and financial analysis;
- Analysis and management of key indicators of the Company’s activity;
- Equipment repairs and maintenance management;
- Customers interaction management;
- Projects and investment management.
The efficient and continuous operation of the Company is ensured by the reliable server and communication hardware, main and redundant data bases, communication system and the software installed in the end-users' work stations including security and antivirus protection control systems. Since May 2005 the system has been operated only by the staff of OJSC MMK.

The corporate information system operates in all structural divisions of OJSC MMK. The employees of OJSC departments, users of the CIS system, register all actual data of the company performance on-line and draw all necessary reporting documents in the system. The number of end users registered in the CIS system came up to 3,292. Within the working day 1,700 people register in the system with 4,800 hours of total time of their co-residing there. In 2004 upon commissioning of the CIS system such figures were 1,500 and 3,800 accordingly. The increase of the system's efficiency is the illustrative evidence of the role enhancement of the corporate information system in the activities of OJSC MMK.

Starting with March 2005 the closing of the financial statement period in the CIS system is made for 5 calendar days.

In 2006 the IIS system went on developing and improving: 16 new subsystems were implemented. OJSC MMK started to integrate information systems of the companies of MMK Group into the CIS system.

The main targets for enhancing the CIS system in 2006 were:
1. Implementation of external and internal electronic documents circulation subsystems. The subsystems were implemented in the following segments:
   - Finances and economy.
   - Employees and wages.
   - Procurement and warehouses.
   - The Company’s assets management.
   - Orders management.
   - Manager’s Workstation informational and analytical system.

According to the requirements of ISO 14000 accounting of costs for technical maintenance and repairs of MMK’s environmental facilities had been ensured. Itemized list of repairs was enlarged. Annual planning and budgeting for repairs and overhauls were also implemented.

The following was also implemented:
- Digital archive of the contracts.
- Digital archive of the commercial proposals in the departments subordinated to the commercial director.

- Newly designed corporate in-house website of OJSC MMK.
- Control system for workstations within the corporate network.
- Infotainment system for external projects of OJSC MMK.
- Active Directory catalogue service.
- PCS system integration into the CIS system.
- Elaboration of reference data corporate control system.
- Infrastructural development of the workshop networks.

The dense wavelength division multiplexing system was also implemented on the optical fiber networks. This ensured the increase of the number of the main data links and enhances reliability of the backbone of the CIS system. New backbone optical fiber links were made ensuring the continuous operation of the data links between the key workshops.

9 railway stations are connected to the CIS system.

- Enhancement of informational security.

The centralized corporate antivirus protection systems, the systems of detection and prevention from unauthorized use and protection analysis system of the informational resources are upgraded and enhanced.
In 2006 both the quotations of OJSC MMK shares and the stock market demonstrated a steady growth. Quotation growth of OJSC MMK shares at MICEX and at RTS amounted to 50.4% and 74.9% accordingly, while the RTS Index upsurged by 70.7%. In absolute figures the quotations increased from USD 0.5788 (January 19, 2006) to USD 0.8705 (December 29, 2006), and from USD 0.4975 (January 10, 2006) to USD 0.87 (December 29, 2006) at MICEX and RTS accordingly.

The annual maximum of the quotations of OJSC MMK shares at the both stock exchanges was shown on December 29, 2006 and it concurred with the historical maximum of the RTS Index (1,922 point).

In general, in the reported year marked by the beginning of the stock market history for the OJSC MMK shares the market took the securities of the Company having high growth potential and shown rather immense interest in by the investors as reliable stock market instrument to invest into.

The ordinary shares of OJSC MMK were admitted to be traded as non-listed securities at RTS (Russian Trade System) and MICEX on December 26, 2005. The securities were given MAGN ticker.

On July 4, 2006 the shares of OJSC MMK were included into Quotation List B at both of the stock exchanges, that positively resulted in both the liquidity and quotation of the securities.

The detailed information on the 2006 trend of OJSC MMK's shares quotation is in the following chart.

### Quotation prices by 2006 Q1, Q2, Q3 and Q4, USD

#### MICEX

<table>
<thead>
<tr>
<th></th>
<th>Price, min.</th>
<th>Price, max.</th>
<th>Price at the end of period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 1</td>
<td>0.5294</td>
<td>0.8380</td>
<td>0.7431</td>
</tr>
<tr>
<td>Q 2</td>
<td>0.7055</td>
<td>0.7769</td>
<td>0.7327</td>
</tr>
<tr>
<td>Q 3</td>
<td>0.6474</td>
<td>0.7343</td>
<td>0.6786</td>
</tr>
<tr>
<td>Q 4</td>
<td>0.6753</td>
<td>0.8705</td>
<td>0.8705</td>
</tr>
</tbody>
</table>

#### RTS

<table>
<thead>
<tr>
<th></th>
<th>Price, min.</th>
<th>Price, max.</th>
<th>Price at the end of period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 1</td>
<td>0.5010</td>
<td>0.7450</td>
<td>0.7450</td>
</tr>
<tr>
<td>Q 2</td>
<td>0.6900</td>
<td>0.7700</td>
<td>0.7300</td>
</tr>
<tr>
<td>Q 3</td>
<td>0.6400</td>
<td>0.7300</td>
<td>0.6798</td>
</tr>
<tr>
<td>Q 4</td>
<td>0.6600</td>
<td>0.8700</td>
<td>0.8700</td>
</tr>
</tbody>
</table>
Sergey V. Krivoschekov, Vice-President for Property Management, LLC MMK Managing Company, member of the Board of Directors of OJSC MMK:

“OJSC MMK is aware of the high significance of corporate governance and constantly works on its improvement. The main target of the Company is to increase controllability and transparency. In 2007 OJSC MMK nominated 5 candidates meeting the independence criteria, to the Board of Directors. We expect that the shareholders shall support these nominations and a new Board of Directors, in which independent directors form half of the membership, shall be elected at the Annual General Meeting”.

Andrey M. Gorodisskiy, Senior Partner of the legal firm “Andrei Gorodisskiy and Partners”, independent member of the Board of Directors of OJSC MMK:

“It is a great honour for me to be on the Board of Directors of OJSC MMK. I have a profound respect for the employees of MMK and its Management, who for many years have been pursuing a policy aimed at modernizing the Company’s production facilities and transforming MMK into an international company meeting the highest standards and criteria”.
Zumrud K. Rustamova, Deputy General Director, Head of Representative Office of OJSC Polymetall in Moscow, independent member of the Board of Directors of OJSC MMK:

“I have accepted the invitation to become a member of the Board of Directors of OJSC MMK with enthusiasm. Magnitka is part of the history of our country, it is the country’s largest steel plant. Working for such company would be interesting for everybody, including me. There are not so many joint-stock companies in our country where it is so honourable to be an independent member of the Board of Director as in Magnitka. As far as I can judge from my study of the operation of the Company, the business and financial operations are perfectly OK here, as is corporate governance, but there is certain room for improvement, and I believe I could help in this respect.”

Kirill Y. Levin, Deputy Chairman of the Board of Joint Stock Bank “Gazprombank” (CJSC), independent member of the Board of Directors of OJSC MMK

“Magnitka (MMK) is one of the largest and most famous enterprises of our country. It is interesting for me to work as an independent director for OJSC MMK and I am very pleased that I have a chance to contribute to its development.

In line with the best world practice of corporative governance and with special emphasis on the issue of enhancing the Company’s transparency, an Audit Committee was established in 2006 which I have the honour to head. Today we are working on organizing an effective functioning of the Committee and creating an internal control and audit system in accordance with the Sarbanes-Oxley Act. I am confident that in the long run it will help raise the efficiency of the Board of Directors’s activities, and promote its role in controlling the financial and business operations of the Company, and to create an improved system of corporate governance at OJSC MMK.
Compliance with the OJSC MMK Corporate Governance Code

The main principle of MMK’s corporate policy is protection of the rights of shareholders and investors. The company follows the provisions of MMK’s Corporate Governance Code and adheres to the principle of equal treatment of all shareholders. Prior to the general shareholders’ meeting in accordance with the current law the shareholders are provided with detailed information on all items of the agenda. The company arranges annual audits inviting an independent auditor and ensures transparency of the business-related information.

The Company’s financial statements are compiled according to RAS and US GAAP.

Equity Capital

Shareholders’ Equity

OJSC MMK authorized capital consists of nominal value of 10,630,221,600 ordinary registered shares of the Company of par value of RUR 1.00 (one) each.

The number of shareholders is 7,061 as of January 01, 2007.

Shareholders

OJSC MMK shareholders holding more than 1% of OJSC MMK shares

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Share, % of the authorized capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 03, 2006</td>
</tr>
<tr>
<td>Fulnek Enterprises Limited</td>
<td>–</td>
</tr>
<tr>
<td>Mintha Holding Limited</td>
<td>–</td>
</tr>
<tr>
<td>LLC Mekom (a trust management company)</td>
<td>42.27</td>
</tr>
<tr>
<td>CJSC RFC Investment Company (a trust management company)</td>
<td>20.78</td>
</tr>
<tr>
<td>U.F.G.I.S. Structured Holdings Limited</td>
<td>33.93</td>
</tr>
<tr>
<td>Natural persons</td>
<td>1.81</td>
</tr>
<tr>
<td>Other legal entities</td>
<td>1.21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Dividends are paid by OJSC MMK according to the Federal Law on Joint Stock Companies and Regulation on Dividend Policy of OJSC MMK. The dividend policy is based on the balance of the shareholders’ and investors’ interests, as well as the requirements of the further development and technical upgrading of the Company’s facilities.

Currently OJSC MMK approved the dividend policy under which the Board of Directors when working out the recommendations in relation to the amount of dividends to be paid is guided by the fact that the amount of money to be paid as dividends should be at least 15% of net income determined on the basis of the Company’s financial statements prepared in accordance with US GAAP, and based on the needs in development of production and investment activity of the Company.

In prospect the Board of Directors will stress toward the payment of the dividends in the amount of at least 25% of the net income determined on the basis of the Company’s financial statements prepared in accordance with US GAAP.
**Dividend Distribution Statement**

- According to the decision of the general shareholders’ meeting dated April 21, 2006, the shareholders of OJSC MMK were paid USD 250.9 million as the dividends for 2005. The obligations to the shareholders in relation to the payment of the dividends for 2005 were fulfilled within the terms determined in the Charter of the Company.
- According to the decision of the extraordinary general shareholders meeting dated May 26, 2006, the shareholders of OJSC MMK were paid USD 233.1 million as the dividends for Q1 2006. The obligations to the shareholders in relation to the payment of the dividends for Q1 2006 were fulfilled within the terms determined in the Charter of the Company.
- According to the decision of the extraordinary general shareholders meeting dated August 29, 2006, the shareholders of OJSC MMK were paid USD 323.7 million as the dividends for H1 2006. The obligations to the shareholders in relation to the payment of the dividends for H1 2006 were fulfilled within the terms determined in the Charter of the Company.
- According to the decision of the extraordinary general shareholders meeting dated November 28, 2006, the shareholders of OJSC MMK were paid USD 366.9 million as the dividends for 9 months of the year 2006. The obligations to the shareholders in relation to the payment of the dividends for 9 months of 2006 will be fulfilled within the terms determined in the Charter of the Company.

**BOARD OF DIRECTORS**

OJSC MMK Board of Directors includes 10 directors, 3 of which are independent ones.

The Chairman of the Board of Directors is Mr. Viktor F. Rashnikov.

The Deputy Chairman of the Board of Directors is Mr. Andrey A. Morozov.

**Appointment of independent directors**

According to the best Russian and global practices of corporate governance, as well as the requirements of the stock exchanges, and for the purpose of enhancement of control, transparency and efficiency of the Company’s managing bodies the following independent directors were elected to be the members of OJSC MMK Board of Directors:

Andrey M. Gorodissky, senior partner of Andrey Gorodissky & Partners law firm (Moscow);

Kirill Y. Levin, deputy Chairman of the Management Board, Gazprombank Joint-Stock Bank of the Gas Industry CJSC;

Zumrud K. Rustamova, deputy CEO, the head of Moscow representative office of OJSC Polymetall.

The key role is played by the independent directors in the committees within the Board of Directors (primarily in the Audit Committee and Nominations and Remunerations Committee).

**Committees of the Board of Directors**

To increase the efficiency of the Board of Directors’ activity and the decisions taken by it, and according to the requirements of the stock exchanges OJSC MMK created the committees involved in the preliminary consideration of the issues and preparation of the recommendations to the Board of Directors:

1. Audit Committee (K.Y. Levin, the chairman of the committee and an independent director). The main issues considered by the committee are: evaluation of the nominees for the auditors of the Company, assessment of the auditor’s opinion, assessment of the efficiency of the procedures of internal audit of the issuer and preparation of the suggestions to improve such procedures;

2. Nominations and Remunerations Committee (A.M. Gorodissky, the chairman of the committee and an independent director). The main issues considered by the committee are: priority activities of the Company in the sphere of manpower policy; elaboration of the policy and standards of the Company in the sphere of selection of the nominees for the members of managing bodies of the Company; elaboration of the policy in the sphere of remunerations for the members of managing bodies and Audit Committee of the Company;

3. Strategic Planning and Corporate Governance Committee (V.F. Rashnikov, the chairman of the committee). The main issues considered by the committee are: strategic planning, strategic risks, corporate governance, settlement of the corporate disputes, economy, finances, credit and dividend policies of the Company;

4. Investment Policy and Liaison with Government Bodies Committee (A.A. Morozov, the chairman of the committee). The main issues considered by the committee are: investment, technical and economic policy, strategic marketing, environmental activities, procurement policy and liaison with the government bodies. The procedure of creation and activities of the committees is governed by the internal regulations approved by the OJSC MMK Board of Directors.
(the job titles are specified as of 01.02.2007)

Victor F. RASHNIKOV (born in 1948) – Chairman of the Board of Directors of MMK, President of the limited liability company “MMK Managing Company”; citizenship – Russian; first elected member of the Board of Directors on April 2, 1993; represents the shareholder of OJSC MMK – limited liability company “Investment Company ”RFC”; since 1999 - President of Metallurg-Magnitogorsk Ice Hockey Club; since 2001 - member of the management board of the Autonomous Non-profit Organization ”Medical Care Unit of the City Administration of Magnitogorsk and OJSC MMK”; since 2004 – chairman of the management board of the Aktsioner Charity Fund; since 2005 – member of Board of Directors of Closed Joint Stock Company “Coal-mining Company “Kazankovskaya”; since 2005 - member of IISI board; higher education, Magnitogorsk Institute of Mining and Metallurgy (1974), metallurgical engineer; Magnitogorsk Academy of Mining and Metallurgy, 1993 г., manager; D.Sc (technology); Professor.

Guennady S. SENICHEV (born in 1951) – Vice-President of the limited liability company “MMK Managing Company” for Operations – Executive Director of MMK; citizenship – Russian; first elected member of the Board of Directors on May 19, 2000; represents the shareholder of OJSC MMK- limited liability company Mekom; higher education, Magnitogorsk Institute of Mining and Metallurgy, 1977 г., metallurgical engineer.

Andrey M. GORODISSKIY (born in 1960) – Senior Partner of “Andrei Gorodisskiy and Partners” law firm; citizenship – Russian; first elected member of the Board of Directors on April 22, 2005; represents the shareholder of OJSC MMK- limited liability company Me- kom; since 1995 – General Director of LLC “Business and Law”; higher education, Moscow State Institute of International Relations, 1978 г., lawyer for international law, PhD (law).

Kirill Y. LEVIN (born in 1968) – Deputy Chairman of the Board of Joint Stock Bank Gazprombank (CJSC), citizenship – Russian; first elected member of the Board of Directors on April 21, 2006; represents the shareholder of OJSC MMK- limited liability company Mekom; since 2003 – Chairman of the Board of Limited Liability Company Gazkardservice; since 2004 – member of the Board of Limited Liability Company New Financial Technologies; since 2004 – Chairman of the Board of CJSC Gazprombank Leasing; since 2004 – Special Director of the Board of Association VISA (non-profit organization); since 2005 – member of the Board of LLC Gazprombank Leasing; since 2005 – member of the Board of Directors of the joint Byelorussian-Russian stock company Belgazprombank; since 2006 – member of the Board of Directors of the open joint stock company Salavatnefteorgsintez; higher education, Moscow Aviation Institute, 1990.
Sergey V. KRIVOSHCHEKOV (born in 1961) – Vice-President for Property Management of the limited liability company "MMK Managing Company"; citizenship – Russian; first elected member of the Board of Directors on May 19, 2000; represents the shareholder of OJSC MMK – limited liability company "Investment Company "RFC"; since 2006- member of the Board of MMK Holdings (Asia) Ltd.; higher education, Magnitogorsk Institute of Mining and Metallurgy, 1983, metallurgical-engineer; Ph.D (economics).

Victor A. KUTISHCHEV (born in 1958) – Commercial Director of MMK; citizenship – Russian; first elected member of the Board of Directors on May 19, 2000; represents the shareholder of OJSC MMK – limited liability company "Investment Company “RFC”", higher education, Magnitogorsk Institute of Mining and Metallurgy, 1980, chemical technology engineer; Ph.D (technology).

Zumrud K. RUSTAMOVA (born in 1970) – Deputy CEO, Head of Moscow Representative Office of Polymetall; citizenship – Russian; first elected member of the Board of Directors on April 21, 2006; represents the shareholder of OJSC MMK- limited liability company Mekom; higher education, Moscow Institute of Economic and Statistics, 1992.

Andrey A. MOROZOV (born in 1952) – Deputy Chairman of the Board of Directors of MMK; Vice-President for Corporate Affairs of the limited liability company "MMK Managing Company"; citizenship – Russian; first elected member of the Board of Directors on May 22, 1998; represents the shareholder of OJSC MMK – limited liability company "Investment Company “RFC”", since 2001 – member of the management board of the Autonomous Non-profit Organization "Medical Care Unit of the City Administration of Magnitogorsk and OJSC MMK", since 2005 – member of Board of Directors of Closed Joint Stock Company "Coal-mining Company "Kazankovskaya"; higher education, Magnitogorsk Institute of Mining and Metallurgy, 1974, metallurgical-engineer; Magnitogorsk Academy of Mining and Metallurgy, 1993 r., manager; Ph.D (technology), D.Sc (economics).
Rafkat S. TAKHAUTDINOV (born in 1958) – Vice-President for Strategic Development of the limited liability company “MMK Managing Company”; citizenship – Russian; first elected member of the Board of Directors on May 5, 1999; represents the shareholder of OJSC MMK – limited liability company “Investment Company “RFC”; since 2005 – Chairman of the Board of Directors of Open Joint Stock Company Magnitogorsk Hardware and Sizing Plant “MMK-METIZ”; since 2006 – Chairman of the Board of Open Joint Stock Company “Schyelkovsky Zavod “Spetsmontazhizdeliye”; higher education, Magnitogorsk Institute of Mining and Metallurgy 1986, metallurgical engineer, D.Sc (technology).

Nikolai V. LYADOV (born in 1956) – Director for Security of MMK; citizenship – Russian; first elected member of the Board of Directors on November 29, 2005; represents the shareholder of OJSC MMK – limited liability company “Investment Company “RFC”; since 2003 года – member of the Board of Directors of Kredit Ural Bank OJSC; since 2006 – member of the Supervisory board of OJSC Vladivostok Sea Commercial Port; higher education, Magnitogorsk Institute of Mining and Metallurgy, 1978, industrial conveyance and hoisting facilities engineer.

The persons nominated to the Board of Directors have sufficient knowledge necessary for taking the strategic decisions including those related to environmental and social risks and exposures.

In the reported year there were no changes in the membership of the Board of Directors.
The members of the Management Board of OJSC MMK as of January 01, 2007
(the job titles are specified as of 01.02.2007)

Guennady S. SENICHEV (born in 1951) – Chairman of Management Board; Vice-President of LLC MMK Managing Company for operations – Executive Director of OJSC MMK, first elected member of the Management Board on 22.04.2005.

Rafkat S. TAKHAUTDINOV (born in 1958) – Vice-President of LLC MMK Managing Company for strategic development; first elected member of the Management Board on 22.04.2005; since 2005 – the Chairman of the Board of Directors of OJSC Magnitogorsk Metal ware and Sizing Plant MMK-METIZ; since 2006 – the Chairman of the Board of Directors of OJSC Schelkovsky Plant “Spetsmontazhizdelie”.


Vladimir I. ANDRIYANOV (born in 1956) – Deputy Executive Director for Transportation – head of Railway Transportation Administration of OJSC MMK; first elected member of the Management Board on 21.12.2001; since 2004 – member of the Board of Directors of CJSC Metallurgtrans; since 2002 – member of the Supervisory Board of OJSC Commercial Sea Port of Vladivostok; since 2006 – member of the Board of Directors of OJSC Sea Port of Eisk.

Valentin V. ANTONYUK (born in 1950) – OJSC MMK’s Director for Capital Construction and Investments; first elected member of the Management Board on 13.04.2001; since 2005 – member of the Board of Directors of CJSC Coal-Mining Company “Kazankovskaya”.

Vladimir Z. BLIZNYUK (born in 1938) – Chairman of the Primary Trade Union Committee of OJSC MMK, subsidiaries, associated enterprises and other organizations with some common production and occupational interests of “the Mining and Metallurgy Trade Union of Russian Federation”; first elected member of the Management Board on 19.06.1998.
Yuri A. BODIAEV (born in 1961) – Chief Engineer of OJSC MMK; first elected member of the Management Board on 30.05.2003.


Michael V. BURYAKOV (born in 1959) – Director of OJSC MMK for integration policy; first elected member of the Management Board on 15.07.2005; since 2002 – a member of the Board of Directors of OJSC Magnitogorsk Metalware and Sizing Plant MMK-METIZ; since 2006 – a member of the Board of Directors of MMK Holdings (Asia) Ltd..

Igor V. VIER (born in 1961) – Vice-President of LLC MMK Managing Company for commerce; first elected member of the Management Board on 22.04.2005; since 2006 – a member of the Board of Directors of OJSC Magnitogorsk Metalware and Sizing Plant MMK-METIZ; since 2006 – a member of the Board of Directors of OJSC Schelkovsky Plant “Spetsmontazhizdelie”.

Lyubov T. GAMPER (born in 1954) – Director of OJSC MMK for legal issues; first elected member of the Management Board on 19.05.1997.

Alexander L. MASTRUEV (born in 1952) – Director of OJSC MMK for personnel and social programmes; first elected member of the Management Board on 19.05.1997; since 2001 – member of the management board of the Autonomous Non-profit Organization “Medical Care Unit of the City Administration of Magnitogorsk and OJSC MMK”.

Marina A. ZHEMCHUEVA (born in 1960) – Chief Accountant of OJSC MMK; Chief Accountant of LLC MMK Managing Company (part-time); first elected member of the Management Board on 19.05.1997.

Victor F. DYACHENKO (born in 1958) – Deputy Executive Director of OJSC MMK for production, technical maintenance and repairs; first elected member of the Management Board on 22.04.2005.

Boris A. DUBROVSKIY (born in 1958) – Sales Director of OJSC MMK; first elected member of the Management Board on 01.02.2002.
Alexey D. NOSOV (born in 1959) – Director of OJSC Magnitogorsk Metalware and Sizing Plant MMK-METIZ; first elected member of the Management Board on 28.11.2003.

Ivan F. TIMOSHENKO (born in 1947) – Director of OJSC MMK for general affairs; first elected member of the Management Board on 08.09.1997.

Arkadiy V. CHERNOV (born in 1953) – head of staff of the President of LLC MMK Managing Company; first elected member of the Management Board on 24.03.2000; since 2001 – chairman of the Board of Directors of OJSC Credit Ural Bank.

Vladimir I. SHMAKOV (born in 1960) – Vice-President of LLC MMK Managing Company for finances and economy; first elected member of the Management Board on 22.04.2005; since 2005 – a member of the Board of Directors of OJSC Magnitogorsk Metalware and Sizing Plant MMK-METIZ.

Dmitry S. KAPLAN (born in 1968) – Deputy Executive Director of OJSC MMK for information technologies; first elected member of the Management Board on 21.04.2006.

Oleg V. FEDONIN (born in 1967) – Director of OJSC MMK for corporate strategy and marketing; first elected member of the Management Board on 14.07.2006; since 2002 – Director of MMK Finance S.A.; since 2004 – a member of the Board of Directors of OJSC SKM Insurance Company; since 2006 – a member of Supervisory Board of OJSC Magnitogorsk Cement & Refractory Plant; a member of the Board of Non-Government Pension Fund “Social Security of Old Age”.
Shares in the authorized capital of OJSC MMK, which are in possession of the members of the Board of Directors and Management Board of OJSC MMK

<table>
<thead>
<tr>
<th># pos.</th>
<th>Full Name</th>
<th>Share in the authorized capital of OJSC MMK, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>01.01.2006</td>
</tr>
<tr>
<td>1</td>
<td>Lyubov T. GAMPER</td>
<td>0.0002</td>
</tr>
<tr>
<td>2</td>
<td>Alexey D. NOSOV</td>
<td>0.0005</td>
</tr>
</tbody>
</table>

All the rest of the members of the Board of Directors and the Management Board of OJSC did not hold any shares of OJSC MMK in 2006.

**Individual Executive Body of the Company (Managing Company)**

At the extraordinary general shareholders' meeting of OJSC MMK held on May 26, 2006, it was decided to transfer the authorities of the individual executive body (CEO of OJSC MMK) under the contract to the managing company, LLC MMK Managing Company (limited liability company). LLC MMK Managing Company is 100% subsidiary of OJSC MMK.

LLC Managing Company was registered on March 06, 2006 by the Inspectorate of the Federal Tax Authority of the Ordzhonikidzevsky district of the city of Magnitogorsk, Chelyabinsk region, under Statutory Registration Number 1067445004110, INN 7445028860, KPP 744501001.

The registered address of LLC MMK Managing Company is 455000, Russian Federation, Chelyabinsk region, Magnitogorsk, Kirova Str. 93.

The individual executive body of LLC MMK Managing Company is Mr. Viktor F. Rashnikov.

The objectives of LLC MMK Managing Company's activity are: the arrangement of the efficient management system of the Company, expansion of the share on the steel market, development and modernization of the production facilities. To reach the specified goals LLC MMK Managing Company performs the following activities:

- Authorities of the individual executive body in the joint stock and other type of entities in the order provided for by the laws of the Russian Federation in force and the contracts concluded;
- Other types of activity permitted by the federal laws.

For the year of 2006 the remuneration to the members of the Board of Directors, the members of the collective executive body and LLC MMK Managing Company as the individual executive body had been paid in the amount of USD 13.1 million according to the approved contracts, the contract with LLC MMK Managing Company and key financial results of the OJSC MMK activity in the reported period.

**Registrar:**
CJSC STATUS Registrar Company.

**Registered Address:** Russia, 109544, Moscow, Dobrovolcheskaya Str. 1/64.
**Postal Address:** Russia, 109544, Moscow, Dobrovolcheskaya Str. 1/64.
**Tel.:** (095) 974-83-50.
**Fax:** (095) 974-83-49.
**E-mail:** statusro@mtu.ru

**License**
**License#** : 10-000-1-00304.
**Date of Issue:** 12.03.2004.
**Validity Period:** unlimited.
**Authority granted the license:** RF Federal Committee for Securities Market.
GENERAL INFORMATION ON OJSC MMK
Full name of the Company:
in Russian: Открытое акционерное общество «Магнитогорский металлургический комбинат»;
in English: Open Joint Stock Company "Magnitogorsk Iron & Steel Works".

Abbreviated name of the Company:
in Russian: ОАО «ММК»;
in English: OJSC MMK.

Date of state registration: October 17, 1992.

Certificate of state registration # 0002 series GA (registration number 186).
State registration body: administration of the city of Magnitogorsk, Chelyabinsk region.

Date of entry in the uniform state register of legal entities: August 12, 2002.

Primary state registration number: 1027402166835.
State registration body: Inspection Board of the RF Ministry of Taxation for Ordzhonikidzevskyi district, Magnitogorsk, Chelyabinsk region.

Location of the Company:
93, ul. Kirova, Magnitogorsk, 455000, Chelyabinsk region, Russia.
Web: http://www.mmk.ru/.

Contacts: Company’s telephone numbers, fax numbers, e-mail (if available):
tel.: (3519) 24-40-09 (information),
fax: (3519) 24-73-09
Information and Public Relations Administration:
tel.: (3519) 35-93-42, fax: (3519) 24-85-54,
e-mail: press@mmk.ru
Integration Policy Administration
tel.: (3519) 24-47-86, fax: (3519) 24-31-43,
e-mail: kolbasina@mmk.ru
Company’s Corporate Secretary:
Valentina N. Khavantseva,
tel.: (3519) 24-72-29, fax: (3519) 24-31-43,
e-mail: khavanceva@mmk.ru
Press Secretary of the Staff of the Chairman of the Board of Directors:
Elena V. Azovtseva,
tel.: (3519) 24-90-82, fax: (3519) 24-80-24,
e-mail: azovtseva@mmk.ru

The annual general shareholders’ meeting will take place on March 30, 2007 at 10:00 AM at:
The Central Quality Laboratory of OJSC MMK, ul. Kirova, 91, Magnitogorsk, Russia
The registration desk opens at 09:00 AM.
LEGAL STATUS OF THE OJSC MMK

The Magnitogorsk Iron and Steel Works is registered in the form of a joint stock company. According to the legislation of the Russian Federation the joint stock company shall be an organization whose authorized capital is divided into a certain number of shares which certify the rights of obligation of the members of the company (shareholders) in relation to the company.

The shareholders do not answer for the Company’s obligations and bear the risk of losses in connection with the Company’s activity to the extent of their shares’ value.

The Company is a legal entity which owns separate property entered in the Company’s independent balance sheet. The number of shareholders of the open joint stock company is not limited.

Countries in which the organization conducts its business

OJSC MMK is situated on the banks of the Ural River in the Urals industrial region on the border between Europe and Asia. The Company is comfortably located in the vicinity of the key suppliers and consumers.

Main activities of the Company are conducted in the territory of the Russian Federation. Besides, OJSC MMK includes the Buskul Maining Administration, located in the territory of the Republic of Kazakhstan. The open mine, which produces clay has been leased by OJSC MMK on a long-term basis. Moreover all employees of the Buskul Maining Administration hold Russian passports and live in the Ogneupornyi township (total population – 700). Before January 2006 this township territorially belonged to the Republic of Kazakhstan which fact gave rise to the number of complexities. To visit to the hospitals, schools and other social facilities in the territory of the Russian Federation the inhabitants of the township every time had to go through the customs formalities. In January 2006 upon request of OJSC MMK the Ogneupornyi township due to the delimitation of the border between the Russian Federation and Kazakhstan was legally admitted into the Chelyabinsk region and Kazakhstan in its turn received an equal plot of land from another district of the Chelyabinsk region.

GENERAL INFORMATION ON THE REPORT

1. The date of publication of the previous Report

Annual reports of the OJSC MMK are prepared annually pursuant to the Federal Law “On Joint-Stock Companies” # 208-F3 dd. 24.11.1995 as amended. The Company considers the Report not only as obligatory document, but also as an instrument for enhancing the transparency of its activities.

The previous Annual Report of the OJSC MMK was prepared on the bases of the results of the year 2005 and was presented to the annual shareholders’ meeting of 21.04.2006. The Annual Report for the year of 2005 is available at MMK’s web site http://www.mmk.ru/rus/shareholders/information/year/index.wbp.

2. Contacts for questions in relation to the Annual Report

1. Press Secretary of the Staff of the Chairman of the Board of Directors: Elena V. Azovtseva, tel.: (3519) 24-90-82, fax: (3519) 24-80-24, e-mail: azovtseva@mmk.ru
2. Company’s Corporate Secretary: Valentina N. Khavantseva, tel.: (3519) 24-72-29, fax: (3519) 24-31-43, e-mail: khavanceva@mmk.ru
3. Senior Manager, Project manager for Budget Planning of the Economics Administration Aleksandr A. Smirnov tel.: (3519) 24-69-04, fax: (3519) 24-82-73, e-mail: smirnov@mmk.ru

3. Procedure for determining the content of the Report

In preparation of the present Annual Report the OJSC MMK aimed at the most comprehensive disclosure of information related to all aspects of its activities in the year of 2006. The Report includes the results of the various activities of the Company (production, economic, financial, social, environmental) that are of interest to the various groups of the interested user of such information. The OJSC MMK views as interested users the following groups of persons:

1. Shareholders of the Company.
2. Potential investors.
3. Company’s employees.
4. Representatives of federal, regional and municipal authorities.
The definition of the above interested parties was made following the comprehensive analysis of the Company’s activities and of the influence thereof on the social sphere and the environment. As the result the top priority was attributed to the following topics: production activity, financial activity, sales of steel products and prospects for its increase, social and environmental activities of OJSC MMK. As material were considered all the facts and events influencing the attainment of the strategic goals of the Company and its Mission.

In preparation of the present Report due account was taken of the Regulations on Sustainability and Reporting (G3) in order to present the results of the activities of the Company in the context of sustainability. All information contained in the present Report is in line with the principles of GRI.

4. Scope of the Report
The present Report has been compiled only for the results of activities of OJCS MMK on the basis of the accounting reports prepared in accordance with the Russian Accounting Standards and cannot be regarded as the Report on the OJSC MMK Group.

5. Limitations regarding the content or the scope of the Report
The present Report provides a complete picture of the activities of the OJSC MMK and the further expansion of the report is possible only in terms of presenting more performance results should such interest be expressed by the users of information on the Company.

6. Influence on the comparability of the Report
The present Report does not include the data on the results of the activities of the OJSC MMK Group, therefore it is completely comparable with the OJSC MMK’s reports for the previous periods.

7. Material Changes in the Report
The present Report does not contain the material changes in information provided in the previous reports as well as changes in relation to the previous periods in terms of its content, scope or assessment of the results of activities of the OJSC MMK.
INDEPENDENT AUDITORS’ REPORT

To the Shareholders of OJSC “Magnitogorsk Iron & Steel Works”:
We have audited the accompanying consolidated balance sheet of OJSC “Magnitogorsk Iron & Steel Works” and its subsidiaries (the “Group”) as of December 31, 2006 and the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders’ equity for the year then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Group for the years ended December 31, 2005 and 2004 were audited by another auditor, whose report, dated March 17, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control over financial reporting. Accordingly, we express no such opinion. 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, based on our audit, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2006 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

March 15, 2007
## OPEN JOINT STOCK COMPANY
### MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2006**  
(Amounts in millions of U.S. dollars, except share amounts)

| December 31, 2006 |
|------------------|----------------|
| **ASSETS**       |                |

**Current assets:**
- Cash and cash equivalents: 338
- Short-term bank deposits: 228
- Short-term investments: 325
- Accounts receivable from third parties, less allowance for doubtful accounts of USD 12 million: 834
- Accounts receivable from related parties: 17
- Prepaid expenses: 14
- Inventories: 688
- Current deferred income tax assets: 36

**Total current assets**: 2,480

- Property, plant and equipment, net: 2,764
- Investments in affiliates: 123
- Long-term investments: 146
- Long-term bank deposits: 109
- Long-term deferred income tax assets: 10
- Goodwill: 2
- Other intangible assets, net: 43
- Other long-term assets: 12

**TOTAL ASSETS**: 5,689
## OPEN JOINT STOCK COMPANY
### MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS (CONTINUED)**
**AS OF DECEMBER 31, 2006**
**(Amounts in millions of U.S. dollars, except share amounts)**

<table>
<thead>
<tr>
<th>December 31, 2006</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Current liabilities:
- Bank overdrafts: 2
- Short-term borrowings and current portion of long-term debt: 373
- Current portion of long-term capital lease obligations: 25
- Accounts payable and accrued liabilities: 545
- Accounts payable to related parties: 8
- Current deferred income tax liabilities: 11

**Total current liabilities:** 964

- Long-term debt, net of current portion: 577
- Long-term capital lease obligations, net of current portion: 29
- Employee benefit obligations: 30
- Long-term deferred income tax liabilities: 50
- Other long-term liabilities: -

**Total liabilities:** 1,650

- Commitments and contingencies: -
- Minority interest: 12

### Shareholders’ equity:
- Common stock (10,630,222 thousand shares with a par value of 1 Russian Ruble each, authorized and issued): 363
- Treasury stock, at cost (common shares totaling 485,062 thousand shares): (85)
- Additional paid-in capital: 254
- Accumulated other comprehensive income: 18
- Retained earnings: 3,477

**Total shareholders’ equity:** 4,027

**TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY:** 5,689
### OPEN JOINT STOCK COMPANY
### MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2006
(Amounts in millions of U.S. dollars, except earnings per share amounts)

<table>
<thead>
<tr>
<th>Years ended December 31, 2006</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue</td>
<td>6,424</td>
</tr>
<tr>
<td>Cost of products sold (exclusive of depreciation and amortization shown separately below)</td>
<td>(3,619)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(188)</td>
</tr>
<tr>
<td>Selling and distribution expenses</td>
<td>(415)</td>
</tr>
<tr>
<td>Administrative and other expenses</td>
<td>(285)</td>
</tr>
<tr>
<td>Social expenses</td>
<td></td>
</tr>
<tr>
<td>Social asset construction costs</td>
<td>(18)</td>
</tr>
<tr>
<td>Social and maintenance expenses</td>
<td>(58)</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>(63)</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>(52)</td>
</tr>
<tr>
<td>Other operating income, net</td>
<td>39</td>
</tr>
<tr>
<td><strong>Income from operating activities</strong></td>
<td>1,765</td>
</tr>
<tr>
<td>Equity in net (losses)/gains of affiliates</td>
<td>(8)</td>
</tr>
<tr>
<td>Interest income</td>
<td>69</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(63)</td>
</tr>
<tr>
<td>Net foreign exchange gain/(loss)</td>
<td>132</td>
</tr>
<tr>
<td><strong>Income before income tax and minority interest</strong></td>
<td>1,895</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(468)</td>
</tr>
<tr>
<td><strong>Income before minority interest</strong></td>
<td>1,427</td>
</tr>
<tr>
<td>Minority interest</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>1,426</td>
</tr>
<tr>
<td>Other comprehensive income:</td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on securities classified as available for sale, net of income tax effect of USD 5</td>
<td>18</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>1,444</td>
</tr>
<tr>
<td><strong>Basic and diluted earnings per common share (USD)</strong></td>
<td>0.140</td>
</tr>
</tbody>
</table>