

EXPLANATORY NOTE

regarding the issue **“Approval of a price of the interested party transaction regarding the first-demand guarantee contract between OJSC MMK and BNP Paribas SA, Geneva, to the Facility Agreement between BNP Paribas SA, Geneva, and MMK Trading AG, Zug (Switzerland)”**

Magnitogorsk Iron and Steel Works Open Joint-Stock Company (“OJSC MMK”) and MMK Trading AG, Zug (Switzerland), are involved in a long-term strategic cooperation.

In accordance with Article 81 of the Federal Law “On Joint Stock Companies” the transaction regarding the first-demand guarantee contract between OJSC MMK and BNP Paribas (Suisse) SA, Geneva, as a security of performance of the obligations of MMK Trading AG, Zug (Switzerland), under the Facility Agreement between BNP Paribas (Suisse) SA, Geneva, and MMK Trading AG, Zug (Switzerland), is deemed an interested party transaction as a daughter of a member of the OJSC MMK’s Board of Directors is a Director of MMK Trading AG, Zug (Switzerland).

In accordance with Paragraph 4 of Article 83 of the Federal Law “On Joint Stock Companies”, an interested party transaction is subject to approval by the majority of uninterested voting shareholders on a General Shareholders Meeting of the Company in case such a transaction or several associated transactions involve property (an offer price of the property purchased) with a value, according to accounting figures of the Company, exceeding 2% and more of the book value of the company’s assets, pursuant to accounting data for the last accounting period.

Due to the increase of steel products shipped by MMK Trading AG, Zug (Switzerland), to 5,000,000 tons in 2007 and to the transfer to payments by a letter of credit, it is planned to increase the facility amount up to USD 600,000,000 against the security of OJSC MMK with the liability limited to USD 600,000,000.

The guarantee by OJSC MMK dramatically decreases credit costs of MMK Trading AG, and also allows to maximize the MMK Group’s profits and, accordingly, its investment attractiveness because MMK Trading AG is a member of MMK Group. The difference between a facility amount with the OJSC MMK’s guarantee and without it is 0.425% p.a. The annual benefit calculated for the maximum amount of USD 600,000,000 can reach USD 2,550,000.

We deem it necessary to make an interested party transaction regarding the first-demand guarantee contract between OJSC MMK and BNP Paribas SA, Geneva, to the Facility Agreement between BNP Paribas (Suisse) SA, Geneva, and MMK Trading AG, Zug (Switzerland), on the following terms:

- purpose of the facility – pre-export and trade financing;
- period of each tranche – up to 90 days;
- validity of the first-demand guarantee – 3 years from the date of the first-demand guarantee;
- transaction price – up to USD 600,000,000.

The beneficiary under the transaction is MMK Trading AG, Zug (Switzerland).