

**EXPLANATORY NOTE
to Accounting Statements of Mechel OAO for 2005**

1. Brief Description of the Company and Main Areas of Its Operations

Mechel Steel Group OAO (hereinafter referred to as the “Company”) was established in accordance with the Memorandum of Incorporation dated March 7, 2003, renamed to Mechel OAO from July 19, 2005, (Certificate Series 77 No. 006840046 issued by the Moscow City Interregional Inspection No. 46 of the Federal Tax Service), and is conducting its operations in accordance with the Civil Code of the Russian Federation, Federal Laws *On Joint Stock Companies*, *On Foreign Investments in the Russian Federation*, other current law of the Russian Federation, and the Charter of the Company.

Location of the Company: Russian Federation, Moscow, Krasnopresnenskaya Naberezhnaya 12.

The Company is registered by the Inspection No. 3 of the Ministry for Taxes and Duties of the Russian Federation for the Central Administrative District of the City of Moscow on March 19, 2003.

The auditor of the Company is OOO “Financial and Accounting Consultants”, the holder of License for the Conduct of Audit Operations No. E 000001 dated April 10, 2002, issued for a term of five years from the aforementioned date.

Pursuant to its Charter, the Company is authorized to conduct the following types of operations:

Integrated management services;
Information and consulting services;
Capital investments in securities;
Business management of coal mining and processing;
Business management of metallurgical production;
Business management of retail and wholesale trade in metallurgical, coal and other products;
Supply and sales;
Organization of the manufacturing and sales of products, wholesale and retail trade;
Business logistical and sales management;
Conduct of marketing surveys;
Consultations on matters related to commercial operations, finance and management;
Cargo transportation and forwarding services;
Foreign economic activity; and
Granting the use of trade marks under license agreements.

From the time of its establishment, the Company has been engaged in the following types of operations:

Integrated management services;
Information and consulting services;
Capital investments in securities;
Granting the use of trade marks under license agreements.

Resolution on distribution of profit for 2004 was approved by the Annual General Meeting of Shareholders and registered in Minutes No. 1 dated June 28, 2005. The profit was distributed as follows:

- Creation of the Reserve Fund - RUR 16,651,373.00
- Payment of dividends on outstanding shares - RUR 5,702,909,206.50
- Retained net profit - RUR 3,862,907,903.47

1. Dividends accrued and paid for 2004.

Resolution to pay dividends for 2004 was approved by the Annual General Meeting of Shareholders and registered in Minutes No. 1 dated June 28, 2004, as follows:

- Dividends to be paid on ordinary registered book-entry shares based on the operating results of the Company in 2004: RUR 13.70 per share.
- Payment to be effected in cash by electronic fund transfer not later than December 31, 2005.

The dividends were actually paid on July 14, 2005, July 15, 2005, and August 02, 2005.

The Company was created by consolidation of majority stakes in such large entities as Southern Kuzbass OAO, Chelyabinsk Metallurgical Plant OAO (“CMP”), Beloretsk Metallurgical Plant OAO, Vyartsilya Metal Products Plant ZAO, Mechel Trading House OOO, Southern Urals Nickel Plant OAO, and a number of others.

As of December 31, 2005, the following shareholders holding at least 5% of the Charter Capital of the Company were registered in the Register of Shareholders of the Company:

No.	Shareholder	Number of Shares	Share in the Charter Capital, %
1	Conares Holding AG	101,852,561	24.47
2	Zyuzin I.V.	81,776,632	19.65
3	Iorich V.F.	64,517,186	15.50
4	KLYPSO LIMITED	60,320,703	14.49
5	DEUTSCHE BANK OOO	49,430,419	11.87
6	OOO “MetHol”	43,061,257	10.34

The Company has no registered branches or representative offices in the Russian Federation or in other countries.

The Company has a separate division, “CMP Legal Evaluation and Control Group”, established on October 7, 2003, and conducting its financial and business operations in the Chelyabinsk Region.

According to the Charter, the General Director/Chief Executive Officer is the sole executive body of the Company.

The Charter of the Company does not envisage a collective executive body.

By resolution of the Board of Directors of the Company dated January 14, 2005, Vladimir Filippovich Iorich was elected the General Director/Chief Executive Officer of the Company as of January 15, 2005.

Members of the Board of Directors:

1. Last Name, First Name, Patronymic: Iorich Vladimir Filippovich
Place of Work: **Mechel OAO**
Position: Chief Executive Officer
2. Last Name, First Name, Patronymic: Zyuzin Igor Vladimirovich
Place of Work: Does not work under labor agreement
3. Last Name, First Name, Patronymic: Proskurnya Valentin Vassilyevich
Place of Work: Does not work under labor agreement
4. Last Name, First Name, Patronymic: Ivanushkin Alexey Gennadyevich
Place of Work: **Mechel OAO**
Position: Chief Operating Officer

5. Last Name, First Name, Patronymic: Kolpakov Serafim Vassilyevich
Place of Work: International Union of Metallurgists
Position: President
6. Last Name, First Name, Patronymic: Yevtushenko Alexander Evdokimovich
Place of Work: Does not work under labor agreement
7. Last Name, First Name, Patronymic: Johnson Arthur David
Place of Work: Joy Mining Machinery, UK Ltd.
Position: Chairman
8. Last Name, First Name, Patronymic: Wood Andrew Marley
Place of Work: The PBN Company
Position: Senior Advisor
Place of Work: Foreign and Colonial Investment Trust
Position: Director
9. Last Name, First Name, Patronymic: Gale Roger Ian
Place of Work: WaveCrest Group Enterprises Limited
Position: Chief Executive Officer
Place of Work: Starnorth Limited
Position: Director

According to the Minutes No. 1 of the General Meeting of Shareholders dated June 28, 2005, the following persons were elected members of the Audit Committee of the Company:

Zolotareva E. V.

Kletskiy D. B.

Radishevskaya L. E.

The Specialized Registrar maintaining the register of the Company is OAO "Registrar NIKoil", located at the following address: 129010 Moscow, Mir Avenue 36, Bldg 1.

The average number of the Company's personnel in 2005 was 166 individuals.

The average number of the Company's personnel in 2004 was 135 individuals.

In accordance with the findings of the on-site tax audit carried out by Inspection No. 3 of the Federal Tax Service, on the issues of compliance with the laws regarding all kinds of taxes except the uniform social tax and personal income tax for the period of 2003-2004, Resolution No. 05-14c/53-70-113-117 dated July 22, 2005, was adopted on bringing to responsibility for committing tax violation.

The Resolution requires the following:

- To transfer to the Russian Federation budget the value added tax in the amount of RUR 12,139,935.00, fine in the amount of RUR 940,052.00, and penalty in the amount of RUR 2,427,987.00.
- To reduce the VAT refund claimed in the amount of RUR 9,473,148.00.
- To increase the loss for 2003 by RUR 3,401,873.00 and the loss for 2004 by RUR 19,211,210.00.

The Resolution is being contested at the Court of Arbitration of the City of Moscow.

On March 10, 2006, the Federal Court of Arbitration for the Moscow District remanded the case for a new trial.

In accordance with the findings of the cameral audit of the value-added tax declaration for December 2004 carried out by Inspection No. 3 of the Federal Tax Service, Resolution No. 01-10c/12 dated April 08, 2005, was adopted.

The Resolution provides for the following:

- To reduce the amount of the value-added tax claimed for refund from the budget for December 2004 in the amount of RUR 18,775,557.00.
- To transfer to the budget the amount of the value-added tax for December 2004 in the amount of RUR 532,097.00.

This resolution was contested at the Court of Arbitration of the City of Moscow.

The Judgment was made in the favor of the Company.

Inspection No. 3 of the Federal Tax Service has filed its cassational appeal against the judgment of the first instance.

2. Main Provisions of the Company's Accounting Policy

The Accounting Policy of the Company was developed in accordance with the provisions of Accounting Regulations *Accounting Policy of a Legal Entity* approved by Order of the Ministry of Finance of the Russian Federation No. 60n dated December 6, 1998, and Accounting Regulations *Reporting of a Legal Entity* approved by Order of the Ministry of Finance of the Russian Federation No. 43n dated July 6, 1999.

The Accounting Policy of the Company was developed on the basis of the following fundamental principles applicable to corporate accounting: completeness, reliability, promptness, prudence, priority of content over form, consistency, and rationality.

Accounting records are maintained on the basis of source documents.

Cash evaluation of property, liabilities and business operations for accounting purposes is made by summing up the actually incurred expenses. Other types of evaluation are used in situations stipulated by the current law of the Russian Federation, accounting regulations, provisions of the Accounting Policy, and other regulatory documents of the Russian Federation.

The Company evaluates its property, liabilities and business operations in rubles. Accounting entries with respect to FX-denominated accounts and operations are made in the currency used in the Russian Federation by converting FX amounts at the exchange rate of the Central Bank of the Russian Federation in effect on the date of the appropriate operation. Concurrently with that, parallel accounting entries are made in the currency in which the actual settlements were performed.

Non-current assets are reflected in the Company's balance sheet at cost.

In the Company's accounting statements for 2005, financial investments include securities of other entities, contributions to charter capitals, acquisitions of equity participations in charter capitals of other entities, and loans extended.

The fixed assets reflected in the Company's balance sheet for 2005 include machines and equipment, manufacturing and other tools and implements, and other fixed assets.

Intangible assets reflected in the Company's balance sheet for 2005 as of December 31, 2005, include exclusive rights to trade marks.

The Company conducts, and maintains separate accounting records of, VAT-taxable and VAT-exempt operations.

The VAT taxation base is determined as of the date when cash is credited to the Company's account, i.e. the date of payment for works performed (services provided).

As of December 31, 2005, the Company's net assets amounted to RUR 19,157,623 thousand.

Computation of net assets shows the extent of economic stability of the entity, and allows to determine whether the entity will be capable to meet its obligations as they fall due and to compute the entity's equity.

Item	Balance Sheet Line Code	At the Beginning of 2005	At the End of 2005
Assets			
Intangible assets	110	77,146	62,495
Fixed assets	120	17,621	17,381
Construction in progress	130	321	265
Interest-bearing investments	135	0	0
Long-term and short-term financial investments	140+250	25,138,897	27,177,596
Other non-current assets	145+150	67,423	104,729
Inventories	210	35,784	61,659
Value added tax on acquired items	220	1,115	6,185
Accounts receivable	230+240	1,074,361	449,520
Cash	260	32,867	17,769
Other current assets	270		
Total assets	x	26,445,535	27,897,599
Liabilities	x		
Long-term obligations under loan and credit agreements	510	2,021,087	8,383,202
Other long-term obligations	515+520	13,663	2,246
Short-term obligations under loan and credit agreements	610	0	0
Accounts payable	620	151,556	73,168
Amounts due to members (founders)	640	0	0
Deferred expense provisions	650	0	0
Other short-term obligations	660		
Total liabilities	x	2,186,306	8,739,976
Net assets of the joint stock company	x	24,259,229	19,157,623

As of December 31, 2004, the Company's net assets amounted to RUR 24,259,229 thousand.

Item	Balance Sheet Line Code	At the Beginning of 2004	At the end of 2004
Assets			
Intangible assets	110	-	77,146
Fixed assets	120	9,160	17,621
Construction in progress	130	371	321
Interest-bearing investments	135	-	0
Long-term and short-term financial investments	140+250	9,025,973	25,138,897
Other non-current assets	145+150	1,152	67,423
Inventories	210	23,247	35,784
Value added tax on acquired items	220	3,600	1,115
Accounts receivable	230+240	132,125	1,074,361
Cash	260	8,807	32,867
Other current assets	270		

Item	Balance Sheet Line Code	At the Beginning of 2004	At the end of 2004
Total assets	x	9,204,435	26,445,535
Liabilities	x		
Long-term obligations under loan and credit agreements	510	-	2,021,087
Other long-term obligations	515+520	837	13,663
Short-term obligations under loan and credit agreements	610	121,001	0
Account payable	620	612,835	151,556
Amounts due to members (founders)	640	-	0
Deferred expense provisions	650	-	0
Other short-term obligations	660	-	
Total liabilities	x	734,673	2,186,306
Net assets of the joint stock company	x	8,469,762	24,259,229

Comparative analysis of net assets

Items	At the Beginning of 2005, RUR'000	At the end of 2005, RUR'000	Difference, RUR'000
Total net assets	24,259,229	19,157,623	- 5,101,606
Difference between net assets and charter capital	20,096,522	14,994,916	-5,101,606
Net assets/charter capital	5.83	4.60	1.23

As of December 31, 2005, the base profit of the Company amounted to RUR 601,304 thousand.
As of the same date, the average weighted number of ordinary shares was 416,270,745.

The average weighted number of ordinary shares as measured in accordance with the provisions of Order No. 29n dated March 21, 2000.

Date	Outstanding Ordinary Shares
January 1, 2005	416,270,745
December 1, 2005*	416,270,745
Total as of December 31, 2005	416,270,745

Note*

Ordinary shares are classified as, and included into the computation of, the average weighted number of ordinary shares as of the date of accrual of rights granted by such shares to their first holders.

The average weighted number of outstanding ordinary shares:

$((416,270,745 \text{ times } 11) + 416,270,745) : 12 = 416,270,745$

As of December 31, 2005, the earnings per share, defined as the ratio of post-tax profit of the reporting period to the average weighted number of ordinary shares outstanding during the reporting period, stood at RUR 1.44.

As of December 31, 2004, the base profit of the Company amounted to RUR 9,582,468 thousand, and the average weighted number of ordinary shares was 385,744,224.

As of December 31, 2004, the earnings per share, defined as the ratio of post-tax profit of the reporting period to the average weighted number of ordinary shares outstanding during the reporting period, stood at RUR 24.84.

3. Analysis of the Company's Financial Situation as of December 31, 2005

The sources of the Company's assets are represented by its equity and liabilities.

Equity is shown in Section III of Form No. 1 *Accounting Balance Sheet*. As of December 31, 2005, it amounted to RUR 19,157,623 thousand. Liabilities are reflected in Sections IV and V of the accounting balance sheet, including RUR 8,385,448 thousand of long-term obligations and RUR 354,528 thousand of short-term obligations.

Information about the movement of equity and reserves is provided in Form No. 3 *Equity Movement Report*. As of the beginning of the year, at the end of the year, the Company's equity consisted of its charter capital, additional capital, reserve capital and retained profit.

Item	Line Code	Change in Structure				
		At the year beginning, RUR'000	% of the Final Value	At the year end, RUR'000	% of the Final Value at the year beginning	Change for 2005, %
Equity	490	24,259,229	100.00	19,157,623	78.97	- 21.03
including:		X	X	X	X	X
Charter capital	410	4,162,707	17.16	4,162,707	17.16	0.00
Additional capital	420	6,023,340	24.83	6,023,340	24.83	0.00
Reserve capital	430	191,484	0.79	208,136	0.86	+ 0.07
Retained profit	470	13,881,698	57.22	8,763,441	36.12	- 21.10

As of December 31, 2005, the equity decreased by 21.03% year on year due to the increase in the reserve capital by 0.07% and decrease in the net profit by 21.10%.

3.1. Movement of Sources of Assets as Shown in Accounting Statements

The analysis of the Company's liabilities is performed with a breakdown by aggregated items reflecting its equity and liabilities, and the changes in absolute and relative indicators.

Item	Line Code	Change in Structure		
		At the year beginning, RUR'000	At the year end, RUR'000	Change for 2005, RUR'000
Equity	490	24,259,229	19,157,623	- 5,101,606
including:		X	X	X
Charter capital	410	4,162,707	4,162,707	0
Additional capital	420	6,023,340	6,023,340	0
Reserve capital	430	191,484	208,135	+ 16 651
Retained profit	470	13,881,698	8,763,441	- 5,118,257

As of December 31, 2005, the Company's equity decreased by RUR 5,101,606 thousand. This increase can be accounted for by the following factors:

1. Decrease of the retained profit for 2005.

Analysis of movements in the structure of equity and liabilities

Item	Line Code	Structural Changes				
		At the year beginning, RUR'000	% of Final Value	At the year end, RUR'000	% of Final Value	Change for 2005, %
Equity	490	24,259,229	91.73	19,157,623	68.67	-23.06
including:		x	x	x	X	x
Charter capital	410	4,162,707	15.74	4,162,707	14.92	-0.82
Additional capital	420	6,023,340	22.78	6,023,340	21.59	-1.19
Reserve capital	430	191,484	0.72	208,135	0.75	+0.03
Retained profit	470	13,881,698	52.49	8,763,441	31.41	-21.08
Borrowed capital, including:		2,186,306	8.26	8,739,976	31.33	+23.07
Long-term obligations*	590	2,034,750	7.69	8,385,448	30.06	+22.36
including:		x	x	x	X	x
Loans and credits	510	2,021,087	7.64	8,383,202	30.05	+22.41
Deferred tax obligations	515	3,836	0.01	2,246	0.01	0
Other long-term obligations	520	9,827	0.04	-	-	-0.04
Short-term obligations	690	151,556	7.69	354,528	30.06	+22.37
including:		x	x	x	X	x
Loans	610	-	-	281,360	1.01	+1.01
Account payable	620	151,556	0.57	73,168	0.26	-0.31
Total sources of assets	700	26,445,535	100.00	27,897,599	100.00	x

* Note: Long-term obligations include deferred tax obligations created in accordance with the provisions of Accounting Regulations PBU 18/02 Profit Tax Accounting.

Aggregated structure of the Company's assets and liabilities is shown in the table below:

Analysis of the Balance Sheet A/L Structure (%)

Item	Line Code	At the Year			Change, %
		Beginning, %	End, %		
Assets		X	X		X
I. Non-current assets	190	83.46	94.98		+11.52
II. Current assets	290	16.54	5.02		-11.52
Balance Sheet	300	100.00	100.00		x
Liabilities		x	x		x
I. Capital and reserves	490	91.73	68.67		-23.06
II. Long-term obligations	590	7.69	30.06		+22.37
III. Short-term obligations	690	0.57	1.26		+0.6
Balance Sheet	700	100.00	100.00		X

The overall assessment of sources of the Company's assets shows that equity is the predominant source. The structure of the Company's assets is consistent with its financial and business operations.

3.2 . Analysis of the Company's Financial Sustainability

Financial sustainability is determined by the gearing ratio. The indicators that can be used for a comprehensive evaluation of the Company's financial sustainability are discussed in the following paragraphs.

The gearing ratio.

This indicator is reflective of the amount of borrowed funds per each ruble of own funds invested into the Company's assets. The decrease of this ratio in 2005 is the evidence that the Company improved its performance while maintaining sufficient financial sustainability.

Factor	Calculation Method	2004	2005
Gearing ratio	Equity / (Long-term + short-term obligations)	11.10	2.19

The autonomy ratio.

This indicator shows the share of the Company's assets covered with equity. The high level of the indicator testifies to high financial sustainability.

Factor	Calculation Method	2004	2005
Autonomy ratio	Equity / Assets	0.92	0.69

3.3. Profitability Analysis

Profitability ratios characterize the Company's performance.

Return on sales.

This indicator characterizes efficiency of the current operations. In 2004-2005, it was significantly affected by the revaluation of the financial investments.

Factor	Calculation Method	2004	2005
Return on sales	Net profit / Proceeds	1858%	59%

Return on current assets.

This indicator shows the amount of net profit gained by the Company per each ruble of its current assets. This indicator, too, was significantly affected by the revaluation of the financial investments in 2004-2005.

Factor	Calculation Method	2004	2005
Return on current assets	Net profit / Current assets average value	422%	21%

4. Fixed Assets

As of December 31, 2005, Line 120 of Form No. 1 *Accounting Balance Sheet* of the Company shows fixed assets in service which do not require state registration, with the book value of RUR 17,381 thousand.

Fixed assets accounting records are maintained in accordance with Accounting Regulations PBU 6/01 *Fixed Assets Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 26n dated March 30, 2001.

The Company registers fixed assets for accounting purposes at cost, namely, at acquisition or manufacturing cost less VAT and other refundable taxes (except where otherwise stipulated by the current law of the Russian Federation).

The Company did not revalue its fixed assets during the reporting period.

Useful lives of fixed assets are set by the Company at the time of their registration for accounting purposes.

Duration of useful lives of fixed assets is determined subject to regulatory and other restrictions on their use. Currently the Company uses useful life duration stipulated by Decree of the Government of the Russian Federation No. 1 dated January 1, 2002.

The Company uses straight line depreciation method.

Fixed assets valued at less than RUR 10,000 per unit are charged to production costs by allocation of 100% of depreciation charges as they are being released into operation.

Acquired books and brochures are charged to costs as they are being released into operation, regardless of their original cost.

Allocation of depreciation charges was not suspended during the use of fixed assets.

Movement of fixed assets in 2005 (with a breakdown by main groups) is shown in the table below:

No.	Fixed Assets Group	Book (Acquisition) Value as of December 31, 2004, RUR'000	Acquisitions in 2005, RUR'000	Disposals in 2005, RUR'000	Book (Acquisition) Value as of December 31, 2005, RUR'000
Proprietary fixed assets					
1.	Machines and equipment	13,005	3,930		16,936
2.	Production and business tools and implements	10,757	2,451	X	13,207
3.	Other	44	78	64	58
	TOTAL	23,806	6,459	64	30,201

Information on the movement of accumulated fixed assets depreciation in 2005 is provided in the following table:

No.	Fixed Assets Group	Accumulated Depreciation as of December 31, 2004, RUR'000	Depreciation Accumulated in 2005, RUR'000	Fixed Assets Depreciation Charged to Costs in 2005, RUR'000	Accumulated Depreciation as of December 31, 2005, RUR'000
Proprietary fixed assets					
1.	Machines and equipment	4,178	4,044	X	8,222
2.	Production and business tools and implements	2,007	2,591	X	4,598
	TOTAL	6,185	6,634	X	12,820

As of December 31, 2005, residual value of the Company's fixed assets amounted to RUR 17,381 thousand. The Company conducts its financial and business operations on premises leased from OAO "World Trade Center".

As of December 31, 2005, the Company had the following standing lease agreements:

- Agreement No. 6000/032339 dated October 6, 2003;
Area of leased premises: 67.8 m²;
Agreement expires on October 04, 2007;
- Agreement No. 6000/041024 dated June 01, 2004;
Area of leased premises: 1,471.0 m².
Agreement expires on June 30, 2006;
- Agreement No. 6000/050579 dated March 24, 2005;
Area of leased premises: 237.7 m²;
Agreement expires on June 30, 2006.

The book value of leased fixed assets was not shown in the *List of Off-Balance-Sheet Assets* attached to Form No. 1 *Accounting Balance Sheet*, as the lessor failed to provide documents evidencing the value of leased property (as confirmed by the official enquiry filed by the Company to the lessor).

The Company does not have real properties.

As of December 31, 2005, all fixed assets of the Company were in active operation.

5. Intangible Assets

As of December 31, 2005, Line 110 of Form No. 1 *Accounting Balance Sheet* of the Company showed intangible assets with the total value of RUR 62,495 thousand.

The Company maintains accounting records of intangible assets in accordance with the provisions of Accounting Regulations PBU 14/2000 *Intangible Assets Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 91n dated October 16, 2000.

The Company registers intangible assets for accounting purposes at the amount equal to the sum total of their actual acquisition value and expenses incurred to bring them into a condition suitable for use for intended purpose.

Useful lives of intangible assets are determined by the Company at the time when they are registered for accounting purposes. For intangible assets whose useful lives are impossible to determine, this indicator is assumed at twenty years.

Useful lives of trade marks are set based on effective terms of the appropriate certificates.

The Company uses straight line depreciation method.

The movement of intangible assets in 2005 is shown in the following table:

No.	Intangible Asset	Value as of December 31, 2004, RUR'000	Acquisitions in 2005, RUR'000	Disposals in 2005, RUR'000	Value as of December 31, 2005, RUR'000
1	Trade Mark, Certificate No. 124 790	13,225	13,225	-	13,225
2	Trade Mark, Certificate No. 88 202	10,805	10,805	-	10,805
3	Trade Mark, Certificate No. 88 203	10,805	10,805	-	10,805
4	Trade Mark, Certificate No.	10,564	10,564	-	10,564

	88 705				
5	Trade Mark, Certificate No. 88 706	10,645	10,645	-	10,645
6	Trade Mark, Certificate No. 88 876	10,805	10,805	-	10,805
7	Trade Mark, Certificate No. 100 070	3,551	3,551	-	3,551
8	Trade Mark, Certificate No. 100 071	3,551	3,551	-	3,551
9	Trade Mark, Certificate No. 94 623	3,412	3,412	-	3,412
10	Trade Mark, Certificate No. 99 372	3,551	3,551	-	3,551
11	Trade Mark, Certificate No. 285609	-	92	-	92
12	Trade Mark, Certificate No. 285610	-	92	-	92
13	Trade Mark, Certificate No. 285611	-	92	-	92
14	Trade Mark, Certificate No. 285626	-	93	-	93
15	Trade Mark, Certificate No. 285627	-	93	-	93
	TOTAL:	80,915	81,377	-	81,377

Information on the movement of accumulated intangible assets depreciation in 2005 is provided in the following table:

No.	Intangible Asset	Accumulated Depreciation as of December 31, 2004, RUR'000	Depreciation Accumulated in 2005, RUR'000	Depreciation Charged on Withdrawn Intangible Assets in 2005, RUR'000	Accumulated Depreciation as of December 31, 2005, RUR'000
1	Trade Mark, Certificate No. 124 790	385	1,541	-	1,926
2	Trade Mark, Certificate No. 88 202	559	2,235	-	2,794
3	Trade Mark, Certificate No. 88 203	559	2,235	-	2,794
4	Trade Mark, Certificate No. 88 705	566	2,264	-	2,830
5	Trade Mark, Certificate No. 88 706	570	2,282	-	2,852
6	Trade Mark, Certificate No. 88 876	559	2,236	-	2,795
7	Trade Mark, Certificate No. 100 070	140	561	-	701
8	Trade Mark, Certificate No. 100 071	140	561	-	701
9	Trade Mark, Certificate No. 94 623	151	602	-	753

No.	Intangible Asset	Accumulated Depreciation as of December 31, 2004, RUR'000	Depreciation Accumulated in 2005, RUR'000	Depreciation Charged on Withdrawn Intangible Assets in 2005, RUR'000	Accumulated Depreciation as of December 31, 2005, RUR'000
10	Trade Mark, Certificate No. 99 372	140	561	-	701
11	Trade Mark, Certificate No. 285609	-	7	-	7
12	Trade Mark, Certificate No. 285610	-	7	-	7
13	Trade Mark, Certificate No. 285611	-	7	-	7
14	Trade Mark, Certificate No. 285626	-	7	-	7
15	Trade Mark, Certificate No. 285627	-	7	-	7
	TOTAL:	3,769	15,113	-	18,882

As of December 31, 2005, residual value of the Company's intangible assets amounted to RUR 62,495 thousand.

The movement of intangible assets in 2004 is shown in the following table:

No.	Intangible Asset	Value as of December 31, 2003, RUR'000	Acquisitions in 2004, RUR'000	Disposals in 2004, RUR'000	Value as of December 31, 2004, RUR'000
1	Trade Mark, Certificate No. 124 790	-	13,225	-	13,225
2	Trade Mark, Certificate No. 88 202	-	10,805	-	10,805
3	Trade Mark, Certificate No. 88 203	-	10,805	-	10,805
4	Trade Mark, Certificate No. 88 705	-	10,564	-	10,564
5	Trade Mark, Certificate No. 88 706	-	10,645	-	10,645
6	Trade Mark, Certificate No. 88 876	-	10,805	-	10,805
7	Trade Mark, Certificate No. 100 070	-	3,551	-	3,551
8	Trade Mark, Certificate No. 100 071	-	3,551	-	3,551
9	Trade Mark, Certificate No. 94 623	-	3,412	-	3,412
10	Trade Mark, Certificate No. 99 372	-	3,551	-	3,551
	TOTAL:		80,915		80,915

Information on the movement of accumulated intangible assets depreciation in 2004 is provided in the following table:

No.	Intangible Asset	Accumulated Depreciation as of December 31, 2003, RUR'000	Depreciation Accumulated in 2004, RUR'000	Depreciation Charged on Withdrawn Intangible Assets in 2004, RUR'000	Accumulated Depreciation as of December 31, 2004, RUR'000
1	Trade Mark, Certificate No. 124 790	-	385	-	385
2	Trade Mark, Certificate No. 88 202	-	559	-	559
3	Trade Mark, Certificate No. 88 203	-	559	-	559
4	Trade Mark, Certificate No. 88 705	-	566	-	566
5	Trade Mark, Certificate No. 88 706	-	570	-	570
6	Trade Mark, Certificate No. 88 876	-	559	-	559
7	Trade Mark, Certificate No. 100 070	-	140	-	140
8	Trade Mark, Certificate No. 100 071	-	140	-	140
9	Trade Mark, Certificate No. 94 623	-	151	-	151
10	Trade Mark, Certificate No. 99 372	-	140	-	140
	TOTAL:	-	3,769	-	3,769

6. Goods and Inventories

The Company maintained accounting records of inventories in accordance with the provisions of Accounting Regulations PBU 5/01 *Inventories Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 44n dated June 9, 2001.

Goods and inventories are shown in accounting records at cost. The actual cost of inventories at the time when they are released into production or otherwise disposed of is determined based on their average cost. The main types of inventories included into Line 211 *Raw and Other Materials and Other Valuable Items* of Form No. 1 *Accounting Balance Sheet* are the Company's firm products and office supplies.

The Company has no illiquid assets shown in Line 211 *Raw and Other Materials and Other Valuable Items* of Form No. 1 *Accounting Balance Sheet*.

Taking into consideration the foregoing, the Company did not have an inventories impairment provision as of December 31, 2005.

7. Financial Investments

Line 140 *Long-Term Financial Investments* of Form No. 1 *Accounting Balance Sheet* of the Company includes securities, contributions to charter capitals, and acquisitions of equity participations in other entities.

The Company maintains accounting records of financial investments in accordance with the provisions of Accounting Regulations PBU 19/02 *Financial Investments Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 126n dated December 10, 2002.

Financial investments are recorded on a separate sub-account of Account 58 *Financial Investments*. Financial investments into the shares of Chelyabinsk Metallurgical Plant OAO, Izhstal OAO, and Chelyabinsk Generating Company OAO are shown in accounting records at the end of the reporting year at their fair market value marked-to-market after the previous reporting date. The said adjustment was reflected by the Company as part of operating income as of the latest reporting date.

	Balance as of January 1, 2005	Acquisitions	MTM (Increase)	Disposals	MTM (Decrease)	Balance as of December 31, 2005
Mechel International Trading AG	841,109	-	-	-	-	841,109
BMP OAO	204,033	1,247	-	-	-	205,280
VMP ZAO	1,932	-	-	-	-	1,932
Izhstal OAO	963,146	442,691	79,531	-	9,582	1,475,786
Kaslino Architectural and Ornamental Casting Plant OOO	6,093	-	-	-	-	6,093
Korshunov Mining Plant OAO	479,250	96,940	-	-	-	576,190
Mezhdurechye OAO	99,544	46,899	-	-	-	146,443
CMP OAO	16,266,480	1,503,611	755,016	-	132,380	18,392,727
Mechel Invest OOO	22,713	-	-	-	-	22,713
Mechel Service OOO	-	19,814	-	-	-	19,814
Port Kambarka OAO	-	97,312	-	-	-	97,312
Mechel Trading House OOO	750,000	-	-	-	-	750,000
Trade Port Posiet OAO	856,208	-	-	-	-	856,208
Mechel Management OOO	-	321	-	-	-	321
Southern Kuzbass OAO	826,328	745	-	-	-	827,073
Urals Stampings Plant OAO	345,972	-	-	-	-	345,972
Chelyabinsk Generating Company OAO	-	98,145	69,973	168,118	-	-
Chelyabinsk Main Power Grid OAO	-	12,994	-	-	-	12,994
Chelyabinsk Management Electric Company OAO	-	2	-	2	-	-
Chelyabenergo OAO	185,667	12,994	-	198,661	-	-
Reorganization of Chelyabenergo OAO*	185,667	12,994	-	198,661	-	-
Chelyabenergosbyt OAO	-	679	-	-	-	679
Mechel Center Private Security Company OOO	-	26	-	-	-	26
Southern Urals GRES OAO	-	19,373	-	19,373	-	-

	Balance as of January 1, 2005	Acquisitions	MTM (Increase)	Disposals	MTM (Decrease)	Balance as of December 31, 2005
Southern Urals Nickel Plant OAO	59,377	4,911	-	-	-	64,288
Total	21,907,852	2,358,705	904,520	386,154	141,962	24,642,961

Notes:

** Description of Chelyabenergo OAO reorganization procedure.*

As of January 01, 2005, the shares of Chelyabenergo OAO on the Company's balance included 175,157,594 shares for the amount of RUR 185,667,050.00.

The first stage of the restructuring under the reformation project was implemented in 2005 - Chelyabenergo OAO reorganization by means of spin-off of the following companies:

Chelyabenergosbyt OAO,

Southern Urals GRES OAO,

Chelyabinsk Management Electric Company OAO,

Chelyabinsk Generating Company OAO, and

Chelyabinsk Main Power Grid OAO.

Splitting the value of Chelyabenergo OAO shares for the spin-off companies was done on a pro rata basis.

The basis selected for the ratio was the proportion of the net asset value as per the separation balance sheet of all the companies.

Long-term financial investments of the Company are contributions into charter capitals and investments into shares of other entities and cash transferred under the Loan Agreements.

No.	Type of Financial Investments	Amount, RUR'000	Share in Total Financial Investments, %
1.	Contributions to charter capitals of subsidiary entities	798,958	3.24
2.	Shares of subsidiary entities	23,683,887	96.11
3.	Shares of other companies	160,116	0.65
	TOTAL	24,642,961	100

Long-term financial investments and loans granted:

Company	Balance as of January 01, 2005, RUR	Granted RUR	Repaid RUR	Balance as of December 31, 2005, RUR
CMP OAO	912,000,000	700,000,000	-	1,612,000,000
Southern Urals Nickel Plant OAO	58,000,000	-	-	58,000,000
TOTAL	970,000,000	700,000,000	-	1,670,000,000

The Borrower is obliged to pay 11% p.a. for utilization of the cash means.

The interest income amount recorded in 2005 under the loans granted is RUR 173,061,644.00.

As of December 31, 2005, the interest due under the loans granted by the Company is paid in full.

The movement of short-term financial investments is as follows:

	Balance as of January 01, 2005	Received	Adjustment amount before the market value (Increase)	Withdrawn	Adjustment amount before the market value (Decrease)	Balance as of December 31, 2005
Bonds of CMP OAO	-	865,278	8	-	678	864,608
Accumulated coupon income	-	27	-	-	-	27
TOTAL	-	865,305	8	-	678	864,635

Company	Balance as of January 01, 2005, RUR	Granted RUR	Repaid RUR	Balance as of December 31, 2005, RUR
BMP OAO	93,000,000	-	93,000,000	-
Consulting and Marketing ZAO	-	10,000,000	10,000,000	-
Consulting and Marketing OOO	-	22,000,000	22,000,000	-
Korshunov Mining Plant OOO	125,000,000	-	125,000,000	-
Mecheltrans OOO	200,000,000	-	200,000,000	-
Mechel Trading House OOO	1,293,044,977	-	1,293,044,977	-
Total	1,711,044,977	32,000,000	1,743,044,977	-

The cash means are granted under the Loan Agreements.

The Borrower is obliged to pay 11% p.a. for utilization of the cash means.

The interest income amount recorded in 2005 under the loans granted is RUR 49,183,788.

As of December 31, 2005, the interest due under the loans granted by the Company is paid in full.

Financial investments are booked at cost.

Actual costs are determined subject to translation differences emerging prior to registration of the appropriate assets for accounting purposes.

Original cost of financial investments represented by contributions to charter capitals is their cash value approved by the founders of the Company.

Upon disposal of financial investments whose current fair market value cannot be determined, the value is the estimate received using the FIFO method.

Financial investments of the Company accounting for more than 10% of total financial investments as of December 31, 2005, are shown in the following table:

No.	Name of the Entity	Amount of Financial Investments, RUR	Share in Total Financial Investments, %
1	Chelyabinsk Metallurgical Plant OAO	18,392,727,468	67.68
2	Other financial investments	6,250,233,579	32.32
	TOTAL	27,177,595,771	100.00

In 2005, the Company did not create an impairment reserve for investments into securities, taking into consideration the following:

- the issuers did not conduct any operations which could significantly impair the value of financial investments during the period starting on the date of acquisition of the appropriate securities and other financial investments and ending on December 31, 2005;
- the Company is providing the issuers with integrated management services;
- the Company is monitoring financial and business operations of the issuers.

Therefore, the Company believes that the probability of impairment of its financial investments into securities is extremely low.

The following Issuers paid dividends on financial investments:

1. Southern Kuzbass Coal Company OAO

- The resolution to pay the dividends was approved by the annual general shareholders meeting on May 13, 2005.
- The number of shares owned by the Company on the date of making up the list of persons entitled to receipt of the dividends was 33,552,951.
- The amount of dividends due to the Company amounted to RUR 6,710,590.20, and, as of December 31, 2005, was credited to the account of the Company in full less the amount of the profit tax withheld by the Company's tax agent in accordance with the current law of the Russian Federation.

2. Chelyabenergo OAO

- The resolution to pay the dividends was approved by the extraordinary general shareholders meeting on June 28, 2005 (Minutes No. 17 dated June 28, 2005).
- The number of shares owned by the Company on the date of making up the list of persons entitled to receipt of the dividends was 175,157,594.
- The amount of dividends due to the Company was RUR 1,629,578.68, and, as of December 31, 2005, was credited to the account of the Company in full less the amount of the profit tax withheld by the Company's tax agent in accordance with the current law of the Russian Federation.

3. Chelyabenergosbyt OAO

- The resolution to pay the dividends was approved by the extraordinary general shareholders meeting (Report on the voting results at the extraordinary general shareholders meeting) held on December 08, 2005.
- The number of shares owned by the Company on the date of making up the list of persons entitled to receipt of the dividends was 175,157,594.
- The amount of dividends due to the Company was RUR 1,152,536.97 and, as of December 31, 2005, has not been paid out to the Company.

4. Chelyabinsk Generating Company OAO

- The resolution to pay the dividends was approved by the extraordinary general shareholders meeting (Report on the voting results at the extraordinary general shareholders meeting) held on September 30, 2005.
- The number of shares owned by the Company on the date of making up the list of persons entitled to receipt of the dividends was 129,657,594.
- The amount of dividends due to the Company amounted to RUR 3,810,027.98 and, as of December 31, 2005, was credited to the account of the Company in full less the amount of the profit tax withheld by the Company's tax agent in accordance with the current law of the Russian Federation.

5. Southern Urals GRES OAO

- The resolution to pay the dividends was approved by the extraordinary general shareholders meeting (Report on the voting results at the extraordinary general shareholders meeting) held on September 29, 2005.
- The number of shares owned by the Company on the date of making up the list of persons entitled to receipt of the dividends was 129,657,594.
- The amount of dividends due to the Company amounted to RUR 778,866.13 and, as of December 31, 2005, has not been paid out to the Company.

8. Account Receivable and Accounts Payable

8.1. Accounts Receivable

The structure of accounts receivable of the Company as of December 31, 2005, as in Line 240 *Accounts Receivable Within 12 Months After the Reporting Date* of Form No. 1 *Accounting Balance Sheet* is shown in the following table:

No.	Debtor	Balance as of January 01, 2005, RUR'000	A/R Accrued during the Reporting Period, RUR'000	A/R Paid during the Reporting Period, RUR'000	Balance as of December 31, 2005, RUR'000
1.	Buyers and customers	82,684	1,074,621	896,177	261,128
2.	Advances paid	954,888	1,880,353	2,702,673	132,568
3.	Social insurance contributions	36	29,425	30,890	-1429 This information is reflected in <i>Accounts payable</i>
4.	Voluntary medical insurance contributions	4,024	Transferred to <i>Advances paid</i>	-	-
5.	VAT on advances received	-	87	43	44
6.	Dividends	9,669	291,551	273,997	27,223
7.	Taxes and duties	22,803	2,410,583	2,406,267	27,119
	Various debtors and creditors	-	43,893	42,651	1,241
8.	Other	257			197
	TOTAL	1,074,361			449,520

In 2005 the Company did not create any bad debt provisions.

List of debtors with outstanding debts in excess of 10% of total accounts receivable as of December 31, 2005:

No.	Debtor	Balance as of December 31, 2005, RUR'000
1	Ernst & Young OOO	86,935
2	CMP OAO	211,056
3	Other	151,529
	TOTAL	449,520

8.2. Accounts Payable

No.	Creditor	Balance as of January 01, 2005, RUR'000	A/P Accrued during the Reporting Period, RUR'000	A/P Paid during the Reporting Period, RUR'000	Balance as of December 31, 2005, RUR'000
1.	Suppliers	117,461	4,410,017	4,520,408	7,070
2.	Personnel of the Company	15,732	297,684	295,254	18,162
3.	State extra-budgetary funds	811	30,080	29,462	1,429
4.	Due taxes and duties	3,327	228,860	229,476	2,711
5.	Advances received	1	1,119	559	561
6.	Deferred tax (VAT)	12,614	127,977	100,562	40,029
7.	Other debtors and creditors	1,318	61,319	60,000	2,637
	Other creditors	292	26,807	26,530	569
	TOTAL	151,556	5,183,863	5,262,251	73,168

List of creditors with outstanding claims in excess of 10% of total accounts payable as of December 31, 2005:

No.	Creditor	Balance as of December 31, 2005, RUR'000
1	CMP OAO	32,195
4	Other	40,973
	TOTAL	73,168

8. Accounting for Assets and Liabilities Denominated in Foreign Currencies

Accounting records for assets and liabilities denominated in foreign currencies are maintained, and the value of such assets and liabilities is converted into the currency of the Russian Federation (rubles), in accordance with the provisions of Accounting Regulations PBU 3/2000 *FX-Denominated Assets and Liabilities Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 2n dated January 10, 2000.

Currency translation differences charged to the Company's profit and loss accounts as of December 31, 2005:

1. Currency translation gains – RUR 83,499,310.66.
2. Currency translation losses – RUR 23,966,614.69.

The exchange rate of the Central Bank of the Russian Federation on the date of preparation of accounting statements was RUR 28.7825 per US\$ 1.00.

9. Events after the Reporting Date

After the reporting date, there occurred the following events affecting the position of the Company:

1. By resolution of the Board of Directors of OAO Mechel dated January 16, 2006, Vladimir Filippovich Iorich was elected the General Director/Chief Executive Officer of the Company since January 15, 2006, for a term of 1 year.

2. Mechel's core shareholders have reached an agreement pursuant to which Mr. Zyuzin, Chairman of the Board, will purchase a 42.2% stake from Mechel's CEO, Vladimir Iorich, over the course of the next twelve months.
3. On March 20, 2005, the Chairman of the Company's Board increased its stake in the Company from 42.2% to 47.1%. The deal was the first step of the planned acquisition by Mr. I. V. Zyuzin of the shares from Mr. V. F. Iorich.
4. In 2005, the Company took part in the privatization auction for the stake in Trade Port Posiet OAO (1,893,000 ordinary registered shares with the state registration number 1-02-30159-F dated August 06, 2003).
On December 28, 2005, the Far-Eastern Interregional Branch of the Russian Federal Property Fund declared the Company the winner of the auction.
The ownership of the shares was transferred to the Company on February 08, 2006.
The book value of the shares was RUR 30,994,779.00.

10. Income

Income accounting records are maintained by the Company in accordance with Accounting Regulations PBU 9/99 *Corporate Income Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 32n dated May 6, 1999.

As of the December 31, 2005, proceeds from the sale of works/services shown in Line 010 *Proceeds from the Sale of Goods, Products, Works, Services* of Form No. 2 *Profit and Loss Statement* amounted to RUR 1,015,452 thousand.

The Company is engaged in the following financial and business operations classified as standard operations:

- Provision of integrated management services;
- Provision of information and consulting services;
- Granting the use of trade marks under license agreements.

The structure of income received from standard operations in 2005 is shown in the following table:

No.	Item	Amount, RUR'000	Share in Total Income from Standard Operations, %
1	Income from provision of integrated management services	541,067	53.28
2	License agreement	188,777	18.59
3	Accumulated coupon income	55,216	5.44
4	Dividends due	14,082	1.39
5	Sale of financial investments	214,911	21.16
6	Other	1,399	0.14
	TOTAL	1,015,452	100.0

Proceeds (income) from provision of integrated management services are recognized in the Company's accounting records on the date of the signing by customers of Services Acceptance Certificates with respect to services provided under the appropriate agreements.

The overall cost of services so provided is made up of the fees and overhead expenses increased by the amount of VAT liability as determined in accordance with the current law of the Russian Federation. Fees are computed on the basis of the time required for the provision of services and hourly rates charged by the employees of the Company.

As of December 31, 2005, the Company had entered into agreements for provision of integrated management services and information/consulting services with a number of entities.

The Company entered into a License Agreement for the Use of Trade Marks No. 01 dated June 17, 2004, with Chelyabinsk Metallurgical Plant OAO, whereby the non-exclusive licenses for the use of trade marks are granted for a consideration for the entire period of their registration.

The date of receipt of proceeds (income) from granting the use of trade marks under the License Agreement is the last day of the month.

As of December 31, 2005, other operating income shown in Line 090 of Form No. 2 *Profit and Loss Statement* amounted to RUR 7,057,267.

The structure of other operating income received by the Company in 2005 is shown in the following table:

No.	Item	Amount, RUR'000	Share in Total Other Income, %
1	Foreign currency purchase/sale operations	6,152,478	87.18
2	Adjustment of fair market value of financial investments (marked-to-the-market)	904,529	12.82
4	Other	260	0.00
	TOTAL	7,057,267	100.0

As of December 31, 2005, non-operating income shown in Line 120 of Form No. 2 *Profit and Loss Statement* amounted to RUR 24,622 thousand.

Structure of non-operating income of the Company in 2005:

No.	Item	Amount, RUR'000	Share in Total Non-Operating Income, %
1	Translation differences on financial investments	566	2.30
2	Currency translation differences	23,967	97.34
3	Other	89	0.36
	TOTAL	24,622	100.0

Structure of income of the Company in 2005:

No.	Item	Amount, RUR'000	Share in Total Other Income, %
1	Income from standard operations	1,015,452	12.20
2	Interest receivable	224,349	2.70
3	Income from participation in other entities	-	-
4	Other operating income	7,057,267	84.81
5	Non-operating income	24,622	0.29
	TOTAL	8,321,690	100.0

11. Expenses

Expense accounting records are maintained by the Company in accordance with Accounting Regulations PBU 10/99 *Corporate Expense Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 33n dated May 6, 1999. As of December 31, 2005, expenses related to services provided within the framework of standard operations as shown in Line 020 *Cost of Sold Goods, Products, Works, Services* of Form No. 2 *Profit and Loss Statement* amounted to RUR 607,477 thousand.

The structure of expenses incurred by the Company in the course of standard operations in 2005 is shown in the following table:

No.	Item	Amount, RUR'000	Share in Total Expenses Associated with Standard Operations, %
1	Payroll and Uniform Social Tax	264,344	80.84
2	Business travel	64,342	12.35
3	Legal services	4,973	1.59
4	Depreciation of intangible assets	15,077	1.57
5	Contractual services	1,241	
6	Production services	7,636	
7	Financial investment sales cost	3,230	
8	Securities sale	241,967	
9	Consulting services	1,891	0.26
10	Conducting of technical expert examination	559	0.13
11	Guard services	453	0.09
12	Services in conducting of a seminar	381	0.09
13	Other	1,383	0.67
	TOTAL	607,477	100.00

The Company uses the following accounts to maintain accounting records of expenses associated with standard operations:

- Account 20 *Main Production*
- Account 26 *General Administration Expenses*

At the end of the reporting period general administration expenses are debited from Account 90. In 2005 general administration expenses of the Company amounted to RUR 343,476 thousand.

No.	Item	Amount, RUR'000	Share in Total Expenses Associated with Standard Operations, %
1	Legal services	8,814	2.57
2	Audit services	66,628	19.40
3	Payroll and Uniform Social Tax	56,135	16.34
4	Non-taxable administration and management expenses	14,536	4.23
5	Lease of premises	30,284	8.82
6	Advertising	11,971	3.49
7	Management expenses	31,064	9.04
8	Consulting services	47,704	13.89
9	Communication services	11,692	3.40
10	Depreciation of fixed assets	6,699	1.95
11	Personnel provision services	12,840	3.74
12	Voluntary medical insurance	4,645	1.35
13	Business trips	8,248	2.40
14	Information services	7,901	2.30
15	VAT	4,780	1.39
16	Property protection	2,774	0.81
17	Expenses for own securities service	8,184	2.38
18	Other	8,577	2.50
	TOTAL	343,476	100.00

As of December 31, 2005, other operating expenses shown in Line 100 of Form No. 2 *Profit and Loss Statement* amounted to RUR 6,296,280 thousand.

The structure of other operating expenses incurred by the Company in 2005 is shown in the following table:

No.	Item	Amount, RUR'000	Share in Total Other Income, %
1	Foreign currency purchase/sale operations	6,142,292	97.55
2	Full appreciation of financial investments up to their current market value	142,639	2.27
3	Bank services	1,319	0.02
4	Taxes	3,387	0.05
5	Share sale expenses	5,427	0.09
6	Other	1,216	0.02
	TOTAL	6,296,280	100.00

Structure of non-operating expenses of the Company in 2005:

No.	Item	Amount, RUR'000	Share in Total Non- Operating Expenses, %
1	Currency translation differences	83,499	90.49
2	Expenses not taxable for profit taxation purposes	5,178	5.61
3	Other	3,601	3.90
	TOTAL	92,278	100.00

Structure of expenses of the Company in 2005:

No.	Item	Amount, RUR'000	Share in Total Other Income, %
1	Expenses associated with standard operations	607,477	7.83
2	Management expenses	343,476	4.43
3	Interest payable	417,971	5.39
4	Other operating expenses	6,296,280	81.16
5	Non-operating expenses	92,278	1.19
	TOTAL	7,757,482	100.00

12. Capital

As of December 31, 2005, the charter capital of the Company was RUR 4,162,707,450 (Four billion one hundred and sixty-two million seven hundred and seven thousand four hundred and fifty rubles), was defined as the sum total of par values of outstanding shares, and consisted of 416,270,745 (four hundred and sixteen million two hundred and seventy thousand seven hundred and forty-five) ordinary registered book-entry shares with par value RUR 10.00 each.

Authorized shares that the Company may issue in addition to the currently outstanding shares are represented by 81,698,341 (eighty-one million six hundred and ninety-eight thousand three hundred and forty-one) ordinary registered shares with par value RUR 10.00 (ten rubles) each. The form of issuance of the Company's shares is book-entry.

The amount of the charter capital of the Company specified in this section of the Explanatory Note is consistent with the amount specified in the constituent documents of the Company.

List of shareholders holding at least 1% of the charter capital of the Company as of December 31, 2005

No.	Shareholder	Number of Shares, pc	Share in the Charter Capital, %
1	Conares Holding AG	101,852,561	24.47
2	I. V. Zyuzin	81,776,632	19.65
3	V. F. Iorich	64,517,186	15.50
4	KLYPSO LIMITED	60,320,703	14.49
5	Deutsche Bank Ltd. (nominee holder)	49,430,419	11.87
6	OOO "MetHol"	43,061,257	10.34
7	Mechel Trading AG	13,152,065	3.16
	TOTAL	414,110,823	99.48

The charter capital of the Company is represented by the aggregate par value of 416,270,745 ordinary registered shares with the par value of RUR 10.00 (ten rubles) each, and amounts to RUR 4,162,707 thousand.

The Company did not engage in operations related to redemption of its shares for the purposes of subsequent resale (transfer).

The Charter of the Company envisages creation of a reserve fund equal to 5% of the charter capital of the Company, which on the date of the Annual General Meeting of Shareholders for 2003 amounted to RUR 191,484 thousand. Pursuant to Resolution of the Annual General Meeting of Shareholders dated June 24, 2004 (Minutes No. 3 dated June 25, 2004), a portion of the profit received by the Company in 2003, equal to RUR 191,484 thousand, was directed to the reserve fund, whereupon the said reserve fund attained the amount specified by the Charter of the Company.

Following the increase of the charter capital of the Company, the amount of the reserve fund to be formed by the Company increased to RUR 208,135,373.00.

Pursuant to the Resolution of the Annual General Meeting of Shareholders (Minutes No. 1 dated June 28, 2005), the amount of RUR 16,651,373.00 was appropriated to the reserve fund in 2005.

As of December 31, 2005, the reserve fund amounts to RUR 208,135,373.00.

As of December 31, 2005, the reserve fund was fully formed.

Additional capital of the Company is represented by the issuance income from the sale of shares above par value, and is defined as the difference between the amount of funds credited to the account of the Underwriter in payment for the shares (at the exchange rate in effect on the date when such funds were so credited to the account of the Underwriter) and the par value of the shares as per the Company's constituent documents).

As of December 31, 2005, the shares issued by the Company were fully paid.

13. Loans and Loan Service Accounting

The Company maintains accounting records of loans and loan service payments in accordance with the provisions of Accounting Regulations PBU 15/01 *Loans and Loan Service Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 60n dated August 2, 2001.

Interest payments on loans received by the Company are recognized during the period in which the appropriate expenses were incurred.

13.1 Loan Agreement Payments

The funds under the Loan Agreement No. 719/05 dated April 07, 2005, were extended to the Company to finance the investment transaction.

The Company used the funds received to acquire 266,956 ordinary registered shares of Izhstal OAO.

The funds under the Loan Agreement No. 13.155-05/843-05 dated July 12, 2005, were extended to the Company to finance the circulating assets.

The Company used the funds received to finance its current expenses.

The funds under the Loan Agreement No. 796-05 dated June 15, 2005, were extended to the Company to replenish its circulating assets.

The Company used the funds received to finance its current expenses.

The funds under the Loan Agreement No. 90530066 dated May 23, 2005, were extended to the Company to replenish its circulating assets.

The Company used the funds received to finance its current expenses.

The loans received by the Company in 2005 under the Loan Agreements No. 90530066 dated May 23, 2005, and No. 796-05 dated June 15, 2005, are classified as short-term obligations.

The loans received by the Company in 2005 under the Loan Agreements No. 719/05 dated April 07, 2005, and No. 13.155-05/843-05 dated July 12, 2005, are classified as long-term obligations.

The principal amounts of the loans extended under the loan agreements in 2005 are
RUR 520,500,000.00, and
US\$ 214,700,000.00.

The Company has repaid the following amount:
RUR 242,728,000.00

As of December 31, 2005, the debt under the short-term loans amounts to RUR 277,772,000.00.

The interest expenses under the loan agreements in 2005 amounted to as follows:
RUR 24,319,784.88, and
US\$ 6,320,761.65.

As of December 31, 2005, the Company paid interest on loans received as follows:
RUR 20,731,756.05.

13.2 Bond Issue

The Company issued documentary interest-bearing non-convertible bearer bonds of Series 01 with mandatory centralized custody (Bonds).

- State Registration Number of the securities issue: 4-01-55005-E
- Number of issued securities: 2,000,000
- Par value: RUR 1,000
- Aggregate par value of the issue: RUR 2,000,000,000
- Method of issuance: public offering

- Maturity date: 1,092nd calendar day following the issue start date

First, second, and third coupon interest rate was set by the Company at 10.69% p.a.

Payments under the Company securities shall be effected on the following dates:

First coupon payment date: May 26, 2005.

Second coupon payment date: November 24, 2005.

The bonded debt is classified as long-term obligations.

As of December 31, 2004, the interest accrued on the Bonds (based on the first coupon interest rate) amounted to RUR 21,087,123.

The interest accrued on the Bonds for 2005 amounted to RUR 213,784,305.29 (based on the first, second, and third coupon interest rates).

Coupon payments on the Bonds were effected in cash by electronic funds transfer in the currency of the Russian Federation in the following amounts:

first coupon payment in the amount of RUR 106,600,000.00.

second coupon payment in the amount of RUR 106,600,000.00.

Coupon payments on the Bonds were effected in due time.

14. Segment Information

Segment information included into this Explanatory Note is furnished in accordance with the provisions of Accounting Regulations *Segment Information* approved by Order of the Ministry of Finance of the Russian Federation No. 11n dated January 21, 2000.

14.1. Segment Income Information

The Company deems the operating segment to be primary, and the geographical segment to be secondary.

2005:

No.	Item	Amount, RUR'000	% of Total
1	Services	541,067	53.28
2	License agreement	188,777	18.59
3	Accumulated coupon income on the CMP Bonds	55,216	5.44
4	Dividends due	14,082	1.39
5	Sale of financial investments	214,911	21.16
6	Other	1,399	0.14
	TOTAL	1,015,452	100.0

2004:

No.	Item	Amount, RUR'000	% of Total
1	Services	447,166	86.71
2	License agreement	68,499	13.28
3	Accumulated coupon income on the CMP Bonds	0	0
4	Dividends due	0	0
5	Sale of financial investments	0	0
6	Other	63	0.01
	TOTAL	515,728	100.00

14.2. Segment Expense Information

2005:

No.	Item	Amount, RUR'000	% of Total
1	Services	347,135	57.15
2	License agreement	15,076	2.48
3	Sale of financial investments	245,197	40.36
4	Other	69	0.01
	TOTAL	607,477	100.0

2004:

No.	Item	Amount, RUR'000	% of Total
1	Services	236,817	98.31
2	License agreement	4 000	1.66
3	Other	70	0.03
	TOTAL	240,887	100.00

14.3. Segment Financial Results Information (Structure of Profit from Standard Operations of the Company)

2005:

No.	Item	Amount, RUR'000	% of Total
1	Services	193,932	47.54
2	License agreement	173,701	42.58
3	Accumulated coupon income on the CMP Bonds	55,216	13.53
4	Dividends due	14,082	3.45
5	Sale of financial investments	(30,286)	(7.42)
6	Other	1,330	0.32
	TOTAL	407,975	100.0

2004:

No.	Item	Amount, RUR'000	% of Total
1	Services	210,349	76.53
2	License agreement	64,499	23.47
3	Other	(7)	0.0
	TOTAL	274,841	100.00

14.4. Segment Receivables Information

2005:

No.	Item	Amount, RUR'000	Share of Receivables from Standard Operations in Total Other Receivables from Standard Operations, %
1	Integrated management services	63,487	24.31
2	License agreement	197,551	75.65
3	Other	90	0.04
	TOTAL	261,128	100.0

2004:

No.	Item	Amount, RUR'000	Share of Receivables from Standard Operations in Total Other Receivables from Standard Operations, %
1	Integrated management services	17,805	21.53
2	License agreement	64,859	78.45
3	Other	20	0.02
	TOTAL	82,684	100.0

14.5 Geographical Segment Information (Income from Standard Operations)

2005:

No.	Region	Amount, RUR'000	% of Total
1	Republic of Karelia	1,673	0.16
2	Republic of Bashkortostan	39,278	3.87
3	Orenburg Region	20,814	2.05
4	Chelyabinsk Region	419,052	41.27
5	Irkutsk Region	25,951	2.56
6	Kemerovo Region	83,530	8.23
7	Moscow	174,840	17.22
8	Primorsky Krai	2,618	0.26
9	Republic of Udmurtia	1,978	0.19
10	Switzerland	20,566	2.03
11	Lithuania	690	0.07
12	Tula Region	214,911	21.16
13	British Virgin Islands	8,145	0.8
14	Kazakhstan	1,062	0.10
15	Romania	117	0.01
16	Bahamas	58	0.00
17	Principality of Liechtenstein	169	0.02
	TOTAL	1,015,452	100.00

2004:

No.	Region	Amount, RUR'000	% of Total
1	Republic of Karelia	1,782	0.35
2	Republic of Bashkortostan	33,921	6.58
3	Orenburg Region	21,320	4.13
4	Chelyabinsk Region	211,697	41.05
5	Irkutsk Region	945	0.18
6	Kemerovo Region	54,566	10.58
7	Moscow	153,050	29.68
8	Primorsky Krai	1 297	0.25
9	Republic of Udmurtia	4 567	0.89
10	Switzerland	31,806	6.17
11	Lithuania	777	0.14
	TOTAL	515,728	100.00

14.6. Geographical Segment Information (Expenses Associated with Standard Operations)

2005:

No.	Region	Amount, RUR'000	% of Total
1	Republic of Karelia	1,310	0.22
2	Republic of Bashkortostan	25,920	4.27
3	Orenburg Region	29,637	4.88
4	Chelyabinsk Region	350,179	57.65
5	Irkutsk Region	15,909	2.62
6	Kemerovo Region	45,395	7.47
7	Moscow	109,758	18.07
8	Primorsky Krai	2,505	0.41
9	Republic of Udmurtia	1,166	0.19
10	Switzerland	14,282	2.35
11	Lithuania	394	0.06
12	Tula Region	3,230	0.53
13	British Virgin Islands	6,560	1.08
14	Kazakhstan	1,062	0.17
15	Romania	115	0.02
16	Bahamas	53	0.01
17	Principality of Liechtenstein	2	0
	TOTAL	607,477	100.00

2004:

No.	Region	Amount, RUR'000	% of Total
1	Republic of Karelia	1 036	0.43
2	Republic of Bashkortostan	20,495	8.51
3	Orenburg Region	10,314	4.28
4	Chelyabinsk Region	76,222	31.64
5	Irkutsk Region	695	0.29
6	Kemerovo Region	28,420	11.80
7	Moscow	79,018	32.80
8	Primorsky Krai	4 020	1.67
9	Republic of Udmurtia	2 790	1.16
10	Switzerland	17,448	7.24
11	Lithuania	429	0.18
	TOTAL	240,887	100.00

14.7. Segment Assets Information

As of December 31, 2005, the Company's assets were not allocated among segments.

14.8. Segment Liabilities Information

As of December 31, 2005, the Company's liabilities were not allocated among segments.

15. Profit Tax

15.1. Maintenance of Profit Tax Accounting Records in Accordance with the Provisions of Accounting Regulations PBU 18/02 Profit Tax Accounting

The Company maintains profit tax accounting records in accordance with the provisions of Accounting Regulations *Profit Tax Accounting* approved by Order of the Ministry of Finance of the Russian Federation No. 114n dated November 19, 2002.

As of December 31, 2005, contingent profit tax expense, defined as the amount of profit tax liability based on accounting profit and shown on the Company's accounting records regardless of the amount of taxable profit, amounted to RUR 174,138 thousand, including:

RUR 171,523 thousand at the tax rate of 24%

RUR 1,348 thousand at the tax rate of 24% with respect to the securities

RUR 1,267 thousand at the tax rate of 9% (with respect to dividends due but not received as of December 31, 2005).

As of December 31, 2005, contingent profit tax income, defined on the basis of accounting loss and shown on the Company's accounting records regardless of the amount of taxable profit, amounted to RUR 40,841 thousand, including:

RUR 32,224 thousand at the tax rate of 24% with respect to standard operations

RUR 8,617 thousand at the tax rate of 24% with respect to the securities.

The Company's accounting records show the following permanent and temporary differences:

1. Permanent differences including (-RUR 736,742) thousand related to standard operations; and RUR 26,242 thousand related to the securities; inclusive of those related to:

Core operations:

- Permanent tax liabilities: RUR 6,320,268 thousand, including:
RUR 6,152,668 thousand* from the sale/purchase of foreign currency, and
RUR 142 639 thousand from full appreciation of the shares up to their market value.
- Permanent tax assets: RUR 7,057,010 thousand, including:
RUR 6,152,481 thousand from the sale/purchase of foreign currency, and
RUR 904,529 thousand from full appreciation of the shares up to their market value

Sale/purchase of securities:

- Permanent tax liabilities (-RUR 46,005) thousand
- Permanent tax assets (-RUR 72,247) thousand,

2. Temporary differences related to standard operations – (-RUR 3,396) thousand, including:

- Deductible temporary differences – RUR 0 thousand
- Taxable temporary differences – (-RUR 3,396) thousand.

3. Temporary differences related to the securities – RUR 4,043 thousand, including:

- Deductible temporary differences – RUR 2,566 thousand
- Taxable temporary differences – (-RUR 1,477) thousand.

4. Temporary differences related to dividends – RUR 4,672 thousand, including:

- Deductible temporary differences – RUR 0 thousand
- Taxable temporary differences – (-RUR 4,672) thousand.

Based on the operating results of the Company in 2005, the base of profit taxation is equal to 0.

In 2005, Southern Kuzbass Coal Company OAO paid the dividends due in the amount of RUR 6,711 thousand on the basis of the resolution adopted by the annual general shareholders meeting. When transferring the proceeds due to the Company, Southern Kuzbass Coal Company OAO fulfilled the functions of the tax agent and withheld the profit tax at the source in the amount of RUR 604 thousand.

In 2005, Chelyabenergo OAO paid the dividends due in the amount of RUR 8,233 thousand on the basis of the resolution adopted by the annual general shareholders meeting. When transferring the proceeds due to the Company, Chelyabenergo OAO fulfilled the functions of the tax agent and withheld the profit tax at the source in the amount of RUR 741 thousand.

In 2005, Chelyabinsk Generating Company OAO paid the dividends due in the amount of RUR 3,810 thousand on the basis of the resolution adopted by the annual general shareholders meeting. When transferring the proceeds due to the Company, Chelyabinsk Generating Company OAO fulfilled the functions of the tax agent and withheld the profit tax at the source in the amount of RUR 343 thousand.

Pursuant to the resolution of the annual general meeting of the Company shareholders (Minutes), dividends to be distributed among the shareholders amounted to RUR 5,702,909 thousand.

The amount of dividend profit tax withheld at the source was computed in accordance with the provisions of Article 275 of the Tax Code of the Russian Federation.

The overall tax liability is defined as the product of the tax rate and the difference between the amount of dividends allocable among shareholders during the current taxation period reduced by the amount of dividends payable by the tax agent, and the amount of dividends received by the tax agent during the current taxation period, if such dividends did not previously participate in the computation of taxable dividend income.

At the time of computation of dividend profit tax withheld at the source, the Company received dividends in the amount of RUR 6,660 thousand, which amount was used to compute the amount of its tax liability payable by the Company as a resident of the Russian Federation.

Line 150 *Current Tax Profit Liability* of Form No. 2 *Profit and Loss Statement* shows the current profit tax related to the income received by the Company from equity participations in charter capitals of other entities and withheld by the tax agent at the time of payment, in the amount of RUR 1,688 thousand.

As of December 31, 2004, contingent profit tax expense, defined as the amount of profit tax liability based on accounting profit and shown on the Company's accounting records regardless of the amount of taxable profit, amounted to RUR 2,734,497 thousand, including:

RUR 2,733,260 thousand at the tax rate of 24%

RUR 643 thousand at the tax rate of 6% (with respect to due and received income from equity participations in other entities)

RUR 594 thousand at the tax rate of 9% (with respect to dividends due but not received as of December 31, 2004).

As of December 31, 2004, contingent profit tax income, defined on the basis of accounting loss and shown on the Company's accounting records regardless of the amount of taxable profit, amounted to RUR 452,518 thousand.

The Company's accounting records show the following permanent and temporary differences:

1. Permanent differences – (-RUR 9,769,138) thousand, including those related to:

- Permanent tax liabilities – RUR 9,227,275 thousand, including: RUR 7,241,923 thousand* from the sale/purchase of foreign currency; and
- Permanent tax assets - RUR 18,996,413 thousand, including: RUR 7,239,565 thousand^ from the sale/purchase of foreign currency

Note:

** This amount includes permanent tax liabilities in the amount of RUR 6,353,442 thousand representing the value of sold foreign currency credited to the FX account of the Underwriter as proceeds from the sale of the Company's shares following the issuance of American Depositary Receipts (ADRs) at the New York Stock Exchange, as the Underwriter actually disposed of the said foreign currency owned by the Company, and sold it for subsequent transfer of ruble-denominated amounts.*

^ This amount includes permanent tax assets in the amount of RUR 6,351,763 thousand representing the value of sold foreign currency credited to the FX account of the Underwriter as proceeds from the sale of the Company's shares following the issuance of American Depositary Receipts (ADRs) at the New York Stock Exchange, as the Underwriter actually disposed of the said foreign currency owned by the Company, and sold it for subsequent transfer of ruble-denominated amounts.

2. Temporary differences – RUR 263,550 thousand, including:

- Deductible temporary differences – RUR 276,050 thousand
- Taxable temporary differences - RUR 12,500 thousand

Based on the operating results of the Company in 2004, the base of profit taxation is equal to 0.

As of December 31, 2003, contingent profit tax expense, defined as the amount of profit tax liability based on accounting profit and shown on the Company's accounting records regardless of the amount of taxable profit, amounted to RUR 1,114,028 thousand.

The Company's accounting records for 2003 show the following permanent and temporary differences:

1. Permanent differences - (-RUR 4,634,643) thousand, including those related to:

- Permanent tax liabilities – RUR 5,346 thousand
- Permanent tax assets – RUR 4,639,989 thousand

2. Temporary differences - RUR 1,273 thousand, including:

- Deductible temporary differences - RUR 4,759 thousand
- Taxable temporary differences - RUR 3,486 thousand

In 2004 Southern Kuzbass Coal Company OAO, acting pursuant to the resolution of the general meeting of shareholders dated June 25, 2004, paid to the Company dividends in the amount of RUR 6,660 thousand. At the time of the payment, Southern Kuzbass Coal Company OAO performed its tax agent functions and withheld profit tax in the amount of RUR 400 thousand.

In 2004 the Company received assets remaining after the liquidation of its subsidiary company OOO "VostSibRuda" for the amount of RUR 4,058 thousand. At the time of the payment, OOO "VostSibRuda" performed its tax agent functions and withheld profit tax in the amount of RUR 238 thousand.

Pursuant to the resolution of the annual general meeting of shareholders (Minutes No. 3 dated June 25, 2004), dividends to be allocated among shareholders amounted to RUR 149,358 thousand.

The amount of dividend profit tax withheld at the source was computed in accordance with the provisions of Article 275 of the Tax Code of the Russian Federation.

The overall tax liability is defined as the product of the tax rate and the difference between the amount of dividends allocable among shareholders during the current taxation period reduced by the amount of dividends payable by the tax agent, and the amount of dividends received by the tax agent during the current taxation period, if such dividends did not previously participate in the computation of taxable dividend income.

At the time of computation of dividend profit tax withheld at the source, the Company received dividends in the amount of RUR 6,660 thousand, which amount was used to compute the amount of its tax liability payable by the Company as a resident of the Russian Federation.

The value of the property received by the Company after the liquidation of its subsidiary company in the amount of RUR 4,058 thousand will reduce the base of taxation for the purposes of the payment of withholding taxes by the residents of the Russian Federation in the following taxation (reporting) period.

Line 150 *Current Tax Profit Liability* of Form No. 2 *Profit and Loss Statement* shows the current profit tax related to the income received by the Company from equity participations in charter capitals of other entities and withheld by the tax agent at the time of payment, in the amount of RUR 638 thousand.

15.2. Recognition of Expense and Income Items for Taxation Purposes

The Company recognizes income during the reporting (taxation) period during which it was received, regardless of when the relevant cash, other property (works, services) and/or proprietary rights were actually received/accrued.

The Company uses accrual accounting method (pursuant to the provisions of Article 271 of the Tax Code of the Russian Federation).

Pursuant to the provisions of paragraph 1.2 of Article 167 of the Tax Code of the Russian Federation, taxation base for the purposes of payment of the value added tax is determined on the date of payment for goods shipped (works performed, services provided).

Pursuant to the provisions of paragraph 4 of Article 170 of the Tax Code of the Russian Federation of the Russian Federation, if during any taxation period (month) the shares of aggregate expenses related to the production of goods (works, services) whose sale is not subject to taxation does not exceed five percent of total aggregate expenses related to standard operations, the Company deducts all VAT listed among expenses incurred by it in connection with the production of such goods (works, services).

The date of performance of works (provision of services) with respect to integrated management services is the date of the signing of the appropriate Works (Services) Acceptance Certificate.

The date of receipt of income from granting the use of trade marks under the License Agreement is the last day of the month.

Expenses listed in Article 252 of the Tax Code of the Russian Federation are recognized as such in the reporting (taxation) period during which they were incurred, regardless of the date of actual cash payment.

Raw and other materials used for the performance of works (provision of services) are valued at average cost (paragraph 8 of Article 254 of the Tax Code of the Russian Federation).

16. Information about Affiliated Persons

Full Trade Name (name for non-profit organization), or Last Name, First Name and Patronymic, of Affiliated Person	Entity's Location or Individual's Residence (to be specified only with the individual's consent)	Reason(s) for the Person Acquiring the Status of an Affiliated Person	Date of Occurrence of the Event(s) Resulting in the Person Acquiring the Status of an Affiliated Person	Reason for the Person Acquiring the Status of an Affiliated Person of the Joint Stock Company, %	Share of the ordinary shares in the Joint Stock Company owned by the Affiliated Person, %
2	3	4	5	6	7
Iorich Vladimir Filippovich	Moscow, Russia	The Person is a member of the Board of Directors of the Joint Stock Company The Person acts as the Individual Executive Body of the Joint Stock Company The Person belongs to the group of persons comprising the Joint Stock Company	March 7, 2003 January 16, 2004 January 16, 2004	15.4989%	15.4989%
Ivanushkin Alexei Gennadyevich	Moscow, Russia	The Person is a member of the Board of Directors of the Joint Stock Company	March 7, 2003	None	None
Zyuzin Igor Vladimirovich	Moscow, Russia	The Person is a member of the Board of Directors of the Joint Stock Company	March 7, 2003	19.6451%	19.6451%
Proskurnya Valentin Vassilyevich	Moscow, Russia	The Person is a member of the Board of Directors of the Joint Stock Company	March 7, 2003	None	None
Yevtushenko Alexander Evdokimovich	Moscow, Russia	The Person is a member of the Board of Directors of the Joint Stock Company	June 24, 2004	None	None
Kolpakov Serafim Vassilyevich	Moscow, Russia	The Person is a member of the Board of Directors of the Joint Stock Company	June 24, 2004	None	None
Johnson Arthur David	United Kingdom	The Person is a member of the Board of Directors of the Joint Stock Company	October 27, 2004	None	None
Gale Roger Ian	United Kingdom	The Person is a member of the Board of Directors of the Joint Stock Company	October 27, 2004	None	None
Wood Andrew Marley	United Kingdom	The Person is a member of the Board of Directors of the Joint Stock Company	October 27, 2004	None	None
Beloretsk Metallurgical Plant OAO	Russian Federation, 453500, Republic of Bashkortostan, Beloretsk, ul. Blyukhera 1	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	June 9, 2003	None	None
Belkanpromimpex ZAO	Russian Federation, Republic of Bashkortostan, Mezhgorye	The Person belongs to the group of persons comprising the Joint Stock Company	June 9, 2003	None	None
Vekselniy Tsent ZAO	Russian Federation, Republic of Bashkortostan, Beloretsk, ul. Krasnykh Partizan, 13	The Person belongs to the group of persons comprising the Joint Stock Company	June 9, 2003	None	None
Avtotransport i Mekhanizatsiya OOO	Russian Federation, 453500, Republic of Bashkortostan, Beloretsk, ul. Blyukhera 1	The Person belongs to the group of persons comprising the Joint Stock Company	June 9, 2003	None	None
Sosnovyi Bor Sport and Recreation Complex OOO	Russian Federation, Republic of Bashkortostan, Beloretsk Area, Sosnovka	The Person belongs to the group of persons comprising the Joint Stock Company	June 9, 2003	None	None
Beloretsk Trading House OAO	Russian Federation, Republic of Bashkortostan, Beloretsk, ul. Lenina, 47	The Person belongs to the group of persons comprising the Joint Stock Company	June 9, 2003	None	None

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BMK-Invest ZAO	Russian Federation, Republic of Bashkortostan, Beloretsk, ul. Blyukhera, 1	The Person belongs to the group of persons comprising the Joint Stock Company	March 26, 2004	None	None
Southern Kuzbass Coal Company OAO	Russian Federation, Kemerovo Region, Mezhdurechensk, ul. Yunosti, 6	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Tomusinsk Power Control OAO	Russian Federation, Kemerovo Region, Mezhdurechensk	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Vzryvprom Yuga Kuzbassa OAO	652870, Russia, Kemerovo Region, Mezhdurechensk, ul Gorkogo, 101	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Krasnogorsk Open Pit Mine OAO	Russia, Kemerovo Region, Mezhdurechensk	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Olzherassk Open Pit Mine OAO	Russia, Kemerovo Region, Mezhdurechensk	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Sibirginsk Open Pit Mine OAO	Russia, Kemerovo Region, Myski	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Tomusinsk Open Pit Mine OAO	Russian Federation, Kemerovo Region, Mezhdurechensk, ul Gorkogo, 300	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Tomusinsk Motor Depot OAO	Russian Federation, Kemerovo Region, Mezhdurechensk	The Person belongs to the group of persons comprising the Joint Stock Company	August 22, 2003	None	None
Lenin Mine OAO	Russian Federation, Kemerovo Region, Mezhdurechensk	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Usinsk Mine OAO	Mezhdurechensk, ul Nagornaya, 30	The Person belongs to the group of persons comprising the Joint Stock Company	May 27, 2003	None	None
Invest Ugol ZAO	654027, Russia, Kemerovo Region, Mezhdurechensk Area, Novokuznetsk, ul Lazo, 2	The Person belongs to the group of persons comprising the Joint Stock Company	August 20, 2004	None	None
Mezhdurechensk Informational House OOO	Russia, Kemerovo Region, Mezhdurechensk, ul Internatsionalnaya, 37a	The Person belongs to the group of persons comprising the Joint Stock Company	March 11, 2005	None	None
Alfa Private Security Firm OOO	Russia, Kemerovo Region, Myski, Sibirginsk Open Pit Mine OAO	The Person belongs to the group of persons comprising the Joint Stock Company	March 11, 2005	None	None
Chelyabinsk Metallurgical Plant OAO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya, 14	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	June 5, 2003	None	None
MetEnergoprojekt ZAO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya, 14	The Person belongs to the group of persons comprising the Joint Stock Company	June 5, 2003	None	None
Resurs ZAO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya, 32	The Person belongs to the group of persons comprising the Joint Stock Company	June 5, 2003	None	None
Resurs OAO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya,	The Person belongs to the group of persons comprising the Joint Stock Company	June 5, 2003	None	None

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Mechel Invest OOO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya, 14	Joint Stock Company obtained the right to control more than 20% of the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	July 7, 2004 June 5, 2003	None	None
EcoMechel OOO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya, 14	The Person belongs to the group of persons comprising the Joint Stock Company	June 5, 2003	None	None
Sovkhoz Kashtakski OOO	Russian Federation, 454047 Chelyabinsk, ul. 2-Paveletskaya, 14	The Person belongs to the group of persons comprising the Joint Stock Company	June 5, 2003	None	None
Korshunov Mining Plant OAO	Russian Federation, Irkutsk Region, Zheleznogorsk-Ilimski, Korshunov Mining Plant OAO	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	May 29, 2003	None	None
Dushkachan Recreation Center OOO	Republic of Buryatia, Severobaikalsk Area, Dushkachan	The Person belongs to the group of persons comprising the Joint Stock Company	May 29, 2003	None	None
Magnetit OOO	Zheleznogorsk-Ilimski, Magnetit Hotel	The Person belongs to the group of persons comprising the Joint Stock Company	May 29, 2003	None	None
Southern Urals Nickel Plant OAO	Russia, Orenburg Region, Orsk	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	June 2, 2003	None	None
Kaskad Security Company OOO	Russian Federation, Orenburg Region, Orsk, ul. Prizavodskaya, 1	The Person belongs to the group of persons comprising the Joint Stock Company	June 2, 2003	None	None
Yuzhpolimetall OOO	Russian Federation, Orenburg Region, Orsk, ul. Prizavodskaya, 1	The Person belongs to the group of persons comprising the Joint Stock Company	June 2, 2003	None	None
Mechel Trading House OOO	Russian Federation, Moscow, Kursovoy per., 12/5, Bldg. 5	Joint Stock Company is entitled to control more than 20% of the total number of votes represented by the shares (investments, stakes) constituting the charter (share) capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	May 15, 2003	None	None
Ugletmet-Avto OOO	Russian Federation, Chelyabinsk, ul. F. Gorelova, 12	The Person belongs to the group of persons comprising the Joint Stock Company	May 15, 2003	None	None
Mecheltrans OOO	Russian Federation, Moscow, ul. Garibaldi, 21	The Person belongs to the group of persons comprising the Joint Stock Company	May 15, 2003	None	None
Mechel Private Security Company	Russian Federation, Chelyabinsk, ul. 2-Paveletskaya, 14	The Person belongs to the group of persons comprising the Joint Stock Company	December 19, 2003	None	None
Mechel-UK Private Security Company OOO	Russian Federation, Chelyabinsk Region, Chebarkul, ul. Dzerzhinskogo, 7	The Person belongs to the group of persons comprising the Joint Stock Company	December 17, 2003	None	None
Mechel Center Private Security Company OOO	Russian Federation, Moscow, Krasnopresnenskaya nab., 12	Joint Stock Company is entitled to control more than 50% of the total number of votes represented by the shares (investments, stakes) constituting the charter (share) capital of the Person	October 21, 2005	None	None

Explanatory Note to Mechel OAO Accounting Statements for 2005

		The Person belongs to the group of persons comprising the Joint Stock Company	December 16, 2003		
MECHEL-ENERGO OOO	Russian Federation, Moscow, per. Pozharski, 5/12, Building 5	The Person belongs to the group of persons comprising the Joint Stock Company	April 29, 2004	None	None
Vyartsilya Metal Products Plant ZAO	Russian Federation, Republic of Karelia, Sortavala, Vyartsilya, ul. Zavodskaya, 1	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	June 21, 2003	None	None
Urals Stampings Plant OAO	Chelyabinsk Region, Chebarkul, ul. Dzerzhinskogo, 7	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	August 19, 2003	None	None
Conares Holding AG	19 Dammstrasse, Zug, Switzerland	The Person may control more than 20% of the total number of votes represented by the shares of the Company	May 25, 2003	24.4679%	24.4679%
Mechel International Holdings AG	19 Dammstrasse, Zug, 6300, Switzerland	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	September 29, 2003	3.16%	3.16%
Mechel Targoviste S.A.	Targoviste, Sos.Gaesti, Nar. 9-11, Judetul Dambovita, Romania	The Person belongs to the group of persons comprising the Joint Stock Company	September 29, 2003	None	None
Mechel Zeljezara d.o.o.	19 Bojidara Adjii, Sikak, Republic of Croatia	The Person belongs to the group of persons comprising the Joint Stock Company	September 29, 2003	None	None
Mechel Nemunas UAB	R. Kalantos g. 83, LT-3014, Kaunas, Lietuvos Respublika	The Person belongs to the group of persons comprising the Joint Stock Company	October 15, 2003	None	None
Inter-Rail Transport Limited	Charlotte House Charlotte Street P.O.Box N-65 Nassau, Bahamas	The Person belongs to the group of persons comprising the Joint Stock Company	March 04, 2004	None	None
Mechel Metal Supply	In alten Riet 102, P.O. Box 841, FL-9494 Schaan Principality of Liechtenstein	The Person belongs to the group of persons comprising the Joint Stock Company	August 01, 2003	None	None
Mechel Metal Supply (International) Limited	Im Alten Reit 102 FL 9494 Schaan Liechtenstein	The Person belongs to the group of persons comprising the Joint Stock Company	August 01, 2003	None	None
Littel Echo Invest Corp.	P.O. Box 958, Pasea Estate Road Town Tortola, BVI	The Person belongs to the group of persons comprising the Joint Stock Company	March 04, 2004	None	None
Browhill Limited	Chrisanthou Milona street, CY 3030, Limassol, Cyprus	The Person belongs to the group of persons comprising the Joint Stock Company	April 18, 2004	None	None
Fulwell Investments limited	Chrisanthou Milona street, CY 3030, Limassol, Cyprus	The Person belongs to the group of persons comprising the Joint Stock Company	April 18, 2004	None	None
Mechel Campia Turzii S.A.	Str. Laminoristilor, 145, Cod 3351, Campia Turzii, jud. Cluj, ROMANIA	The Person belongs to the group of persons comprising the Joint Stock Company	June 20, 2003	None	None
Trade Port Posiet OAO	Russian Federation, 692705 Primorsky Krai, Khasansk Area, Posiet, ul. Portovaya, 41	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of	February 10, 2004	None	None

		persons comprising the Joint Stock Company			
Nord Transport Agency OOO	Russian Federation, 692705 Primorsky Krai, Khasansk Area, Posiet, ul. Portovaya, 41	The Person belongs to the group of persons comprising the Joint Stock Company	February 10, 2004	None	None
Izhstal OAO	Russian Federation, Republic of Udmurtia, Izhevsk	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	May 14, 2004 May 20, 2004	None	None
Izhstal-Avto OOO	Russian Federation, Republic of Udmurtia, Izhevsk	The Person belongs to the group of persons comprising the Joint Stock Company	May 20, 2004	None	None
Izhstal-Agro OOO	426000 Republic of Udmurtia, Izhevsk, Zavialovo, ul. Kalinina, 31	The Person belongs to the group of persons comprising the Joint Stock Company	May 20, 2004	None	None
Izhstal-TNP OOO	426006 Republic of Udmurtia, Izhevsk, ul. Novoazhimova, 6	The Person belongs to the group of persons comprising the Joint Stock Company	May 20, 2004	None	None
Kaslino Architectural and Ornamental Casting Plant OOO	454080 Chelyabinsk, pr. Lenina, 68	Joint Stock Company has obtained the right to control more than 20% of the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	June 18, 2004	None	None
Mechel Casa de Comert SRL	5 Gheorge Manu Str., Bucharest, Romania	The Person belongs to the group of persons comprising the Joint Stock Company	November 19, 2003	None	None
Steel Consulting LLP	Rotherwick House, 3 Thomas More Street, London E1W 1YX	The Person belongs to the group of persons comprising the Joint Stock Company	September 19, 2004	None	None
Britta Investments LTD	P.O. Box 958, Pasea Estate, Road Town, Tortola, British Virgin Islands	The Person belongs to the group of persons comprising the Joint Stock Company	September 19, 2004	None	None
Port Kambarka OAO	427958, Russian Federation, Republic of Udmurtia, Kambarsk Area, pos. Kama, ul. Nizhnekamskaya 2	Joint Stock Company may control more than 20% of the total number of votes represented by the shares constituting the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	April 27, 2005	None	None
Mechel Service OOO	Russian Federation, Moscow, Kursovoy per., 12/5, Bldg.5	Joint Stock Company has obtained the right to control more than 20% of the charter capital of the Person The Person belongs to the group of persons comprising the Joint Stock Company	May 05, 2005	None	None
Klypso Limited	Themistokli Dervi, 3, Julia House, P.C. 1066, Nicosia, Cyprus	The Person belongs to the group of persons comprising the Joint Stock Company	April 14, 2005	14.4907%	14.4907%
Mecheltrans Ukraine TOO	03038, Kiev, ul. Fedorova, 32	The Person belongs to the group of persons comprising the Joint Stock Company	April 29, 2005	None	None
Mechel Management OOO	Russian Federation, Moscow, Krasnopresnenskaya Nab., 12	The Person belongs to the group of persons comprising the Joint Stock Company	October 05, 2005	None	None
BMK-M Private Security Company OOO	Russian Federation, 453500, Republic of Bashkortostan, Beloretsk, ul. Blyukhera 1	The Person belongs to the group of persons comprising the Joint Stock Company	December 01, 2004	None	None

Monte Shipping Limited	Im Alten Riet 102 9494 Schaan Principality of Liechtenstein	The Person belongs to the group of persons comprising the Joint Stock Company	July 01, 2005	None	None
Mechel Trading AG	19 Dammstrasse, Zug, 6300, Switzerland	The Person belongs to the group of persons comprising the Joint Stock Company	December 20, 2005	None	None

Settlements with Affiliated Persons

Name	Payable at the beginning of 2005, RUR'000		Cost of Services Provided, RUR'000	Amount Paid, RUR'000	Payable at the end of 2005, RUR'000	
	Accounts receivable	Accounts Payable			Accounts receivable	Accounts Payable
Alfa Private Security Firm	-	-	20	20	-	-
BMP OAO	78	-	46,328	46,328	-	-
Britta Investments LTD	-	-	102	102	-	-
VMPP ZAO	1,714	-	1,970	164	3,520	-
Izhstal OAO	86	-	2,365	2,451	-	-
Inter-Rail Transport Limited	-	-	69	69	-	-
Kaskad Security Company	-	-	20	-	20	-
Kaslino Architectural and Ornamental Casting Plant	159	-	966	-	1,125	-
Korshunov Mining Plant	-	-	30,612	30,612	-	-
Littel Echo Invest Corp.	-	-	9,494	9,494	-	-
Mechel Campia Turzii S.A.	-	-	35	11	24	-
Mechel Metal Supply (International)	-	-	341	341	-	-
Mechel Nemunas UAB	-	-	699	699	-	-
Mechel Targoviste S.A.	-	-	105	105	-	-
CMP OAO	80,259	-	402,305	271,750	210,814	-
Mechel-UK Private Security Company	-	-	20	20	-	-
Mechel Service OOO	-	-	2,032	2,032	-	-
Mecheltrans OOO	47	-	1,545	1,510	82	-
Mechel International Holdings AG	-	-	22,308	22,290	18	-
Mechel Coal Resources TOO	-	-	1,087	1,087	-	-
Mechel Energo OOO	-	-	374	374	-	-
Krasnogorsk Open Pit Mine OAO	-	-	6	6	-	-
Olzherassk Open Pit Mine OAO	-	-	20	20	-	-
Sibirginsk Open Pit Mine OAO	-	-	4,804	2,360	2,444	-
Tomusinsk Open Pit Mine OAO	-	-	20	20	-	-
Mechel Trading House	-	-	202,535	202,573	-	38

OOO						
Trade Port Posiet OAO	33	-	3,089	3,122	-	-
Urals Stampings Plant OAO	45	-	13,397	13,442	-	-
Siberian Central Processing Plant ZAO	-	-	5	-	5	-
BMK-M Private Security Company	-	-	20	-	20	-
Mechel Center Private Security Company	20	-	-	20	-	-
Southern Kuzbass Coal Company OAO	167	-	85,789	43,147	42,809	-
Southern Urals Nickel Plant OAO	73	-	23,627	23,700	-	-
TOTAL	82,681	-	856,109	677,869	260,881	38

Procurement Operations:

Name	At the beginning of 2005, RUR'000		Movement in 2005, RUR'000		At the end of 2005, RUR'000	
	Accounts receivable	Accounts Payable	Sale	Settlements	Accounts receivable	Accounts Payable
BMP OAO	-	-	31	46	-	15
Izhstal OAO	-	-	145	145	-	-
Mechel International Holdings AG	80	-	40	80	40	-
Mechel Invest OOO	-	-	13,514	13,528	-	14
Mechel Trading House OOO	-	28	1,539	81	1,430	-
Southern Kuzbass Coal Company OAO	-	2,735	2,976	241	-	-
Urals Stampings Plant OAO	-	-	90	90	-	-
CMP OAO	-	-	2	2	-	-
Mechel Center Private Security Company OOO	-	209	3,606	3,862	-	465
TOTAL	80	2,972	21,943	18,075	1,470	494

Cash received under Loan Agreements:

Name	At the beginning of 2005, RUR'000	Repaid, RUR'000	Received, RUR'000	At the end of 2005, RUR'000
Mechel Trading House OOO	-	227,728	505,500	277,772
TOTAL	-	227,728	505,500	277,772

Interest accrued under Loan Agreements:

Name	At the beginning of 2005, RUR'000	Paid, RUR'000	Accrued, RUR'000	At the end of 2005, RUR'000
Mechel Trading House OOO	-	20,269	23,857	3,588
TOTAL	-	20,269	23,857	3,588

Cash extended under Loan Agreements:

Name	At the beginning of 2005, RUR'000	Extended, RUR'000	Repaid, RUR'000	At the end of 2005, RUR'000
BMP OAO	93,000	-	93,000	-
Korshunov Mining Plant	125,000	-	125,000	-

OAO				
CMP OAO	912,000	700,000	-	1,612,000
Mecheltrans OOO	200,000	-	200,000	-
Mechel Trading House OOO	1,293,045	-	1,293,045	-
Southern Urals Nickel Plant OAO	58,000	-	-	58,000
TOTAL	2,681,045	700,000	1,711,045	1,670,000

Interest accrued on extended loans:

Name	At the beginning of 2004, RUR'000	Accrued, RUR'000	Paid, RUR'000	At the end of 2004, RUR'000
BMP OAO	75	7,028	7,103	-
Korshunov Mining Plant OAO	263	13,562	13,825	-
CMP OAO	-	166,682	166,682	-
Mecheltrans OOO	66	774	840	-
Mechel Trading House OOO	2,651	26,976	29,627	-
Southern Urals Nickel Plant OAO	11	6,380	6,391	-
TOTAL	3,066	221,402	224,468	-

Remuneration paid in 2005 to the members of the Board of Directors of the Company pursuant to the Bylaw *On Remuneration to Members of the Board of Directors of Mechel Steel Group OAO and Compensation of Their Expenses Connected with Their Execution of Functions of Members of the Board of Directors*, including compensation of expenses incurred by them in connection with the performance of their official functions, amounted to RUR 53,289,154.97.

17. Contingent Business Operations

The Company is not engaged in contingent operations.

18. Cessation of Operations

The Company does not intend to cease its financial and business operations.

19. Procedure of Data Reporting Under Form No. 4

In Form No. 4 for 2005, Line 151 *Advances to suppliers and contractors*, column *Same period, previous year* includes the amount of RUR 788 930 thousand constituting the advances paid for the acquisition of the financial investments (subsidiaries).

The amount of advances paid for the acquisition of the subsidiaries pertaining to column *Reporting year* is shown in line 280 *Acquisition of subsidiaries*.

Chief Executive Officer

Signature

V. F. Iorich

Chief Accountant

Signature

T. A. Kalyadina