

**PRELIMINARY APPROVED**

**By the Board of Directors, Mechel Open Joint  
Stock Company**

**APPROVED**

**By the Annual General Shareholders' Meeting of  
Mechel Open Joint Stock Company**

**ANNUAL REPORT**  
**MECHEL**  
**OPEN JOINT STOCK COMPANY**

General Director

V. F. Iorich

Chief Accountant

E. L. Kryazhevskikh

**2006**

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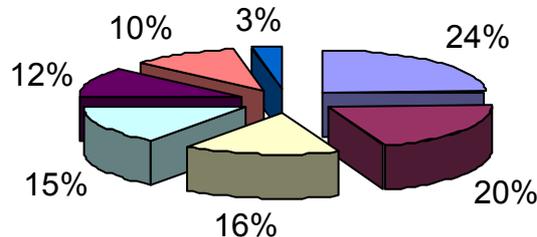
## 1. INFORMATION ON THE COMPANY

Mechel Steel Group Open Joint Stock Company was founded on March 19, 2003, by contribution of shares in steel and mining companies to its charter capital and has been renamed to Mechel Open Joint Stock Company (hereinafter, “Mechel OAO” or the “Company”) in July 2005.

The Register Holder of the Company is NIKoil Registrar Open Joint Stock Company located at the address: 28 Tretya Ulitsa Yamskogo Polya, Moscow, which acts on the grounds of the license No. 10-000-1-00290 issued by the Federal Commission on the Securities Market for an indefinite term on June 17, 2003.

The charter capital of Mechel OAO, as of the moment of its foundation, amounted to 3,829,690,860.00 rubles and consisted of the nominal value of 382,969,086 common registered shares in the book-entry form with the nominal value of 10 (ten) rubles each. The charter capital of Mechel OAO amounted to 4,162,707,450.00 rubles, as of December 31, 2005, and is comprised by 416,270,745 common registered book-entry shares with the nominal value of 10 (ten) rubles each.

**Mechel OAO's Charter Capital Structure as of December 31, 2005**



Mechel OAO common registered shares with the nominal value of 10 (ten) rubles each are included in the B-Level Quotation List of the RTS Stock Exchange.

Capitalization value of Mechel OAO calculated based on the RTS data, as of December 31, 2005, amounts to RUR **96,080,033,432.49** as calculated in accordance with the Order of the Federal Service for Financial Markets of the Russian Federation No. 05-57/pz n of November 1, 2005, which establishes the new procedure for calculating market capitalization as the product of a number of the shares of respective category (type) and the market price of one share to be disclosed by Arrangers of Trade on the securities market and determined in accordance with the Procedure for Calculation of Market Price of Securities and Mutual Investment Fund's Equity Participations Admitted for Circulation Through Arrangers of Trade adopted by the Resolution of the Russia's FCSM No. 03-52/ps dated December 24, 2003 (registered with the Russian Federation Ministry of Justice on January 23, 2004, Registration No. 5480):

$$MC = Q * P,$$

- where MC – market capitalization value, Q – quantity of securities permitted for trade, P – market price of one share (the latest market price as calculated by the arranger of trade determined during 90 days of trade).

Mechel OAO common registered shares are listed beyond the Russian Federation in the form of the 3-rd level American Depository Receipts (hereinafter, ADRs) at the New York Stock Exchange. Each ADR represents three common shares of Mechel OAO.

## **2. POSITION OF THE COMPANY IN THE INDUSTRY**

Mechel Open Joint Stock Company is one of the Russia's leading companies in steel and mining industries providing also comprehensive management services. Position of the Company in the industry is characterized as firm.

Steel industry is the basic industry of the Russia's national economy that substantially determines viability of the Russia's economy on the whole. For efficient functioning of the economic mechanism in the market-based economy, reevaluation of many of practical aims of national management and reorganization of the existing management system take on important significance. Special attention in this process is paid to formation of infrastructure of companies engaged in business relationships. Management consulting holds central position in such infrastructure.

Services provided by the Company may be subdivided into two kinds of consulting, *i.e.* normative and developing. Normative consulting includes consulting on legal issues, accountancy, foreign economic activity, taxation, and audit. Developing consulting deals with transfer of a company from current status to desirable. This kind of consulting implies diagnostics of a company, development of programs to eliminate deadlock situations, reorganization of management system, elaboration of marketing policy, *etc.*

The company strives for independent, with no engagement of external consultants, utilization of the best theoretical knowledge and practical experience of its specialists in order to manage its consolidated business. Among the main advantages of carrying out independent services to manage companies consolidated in one business that may be pointed out are the following:

- accumulation of experience by the Company's personnel will undoubtedly be more valuable as compared to such accumulation of experience by any external consulting company;
- utilizing the Company's own resources for providing services in management of the businesses is undoubtedly more efficient;
- the Company's personnel have a higher level of responsibility and focusing on results as compared to personnel of any consulting company.

The Company intends to carry out further actions aimed at improving quality of the management services and consulting provided to entities that are parts of the same group of entities as the Company and comprise one business.

## **3. PRIORITY LINES IN THE COMPANY'S ACTIVITIES**

The priority lines in the Company's Activities are as follows:

integrated management services;

informational 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 product manufacturing and marketing, wholesale and retail;

logistical and sales management;

market research, consulting in the sphere of marketing management;

consulting in the sphere of financial management of companies, design of accounting systems, production cost accounting, control procedures over budget and management;  
 consulting in the sphere of human resource management;  
 consulting in the sphere of planning, organization, efficiency and control;  
 consulting in the sphere of accounting and taxation, commercial operations and company management;  
 consulting in the sphere of commercial activities, finance, and management;  
 forwarding services;  
 foreign economic activities;  
 lease of trademarks under license contracts.

**4. REPORT OF THE BOARD OF DIRECTORS ON RESULTS OF THE COMPANY'S DEVELOPMENT ALONG THE PRIORITY LINES IN THE COMPANY'S ACTIVITIES**

The Company carries out the following types of financial and business operations related to common types of activities:

- providing comprehensive services in the sphere of management;
- providing informational and consulting services;
- capital investments in securities;
- lease of trademarks under license contracts.

As of December 31, 2005, the Company has concluded contracts with organizations for providing comprehensive services in the sphere of management and informational and consulting services including for lease of trade marks.

Structure of revenues from common types of activities, as of December 31, 2005, is shown in the Table below.

N	Item	Amount, '000 rubles
1	Revenues from providing comprehensive management services	541,067
2	License Contract	188,777
3	ACI on CMP bonds	55,216
4	Dividends due	14,082
5	Sale of financial investments	214,911
6	Other	1,399
	TOTAL	1,015,452

In 2005, Mechel OAO established Mechel Service OOO, with the 99% stake in its charter capital, and Mechel Management OOO, with the 100% stake in its charter capital; and acquired 90.36% of the shares of Port Kambarka OAO.

In 2005, Mechel OAO increased its interest in the charter capitals of the following entities:  
Korshunov Mining Plant OAO – from 75.00% to 85.52%;  
CMP OAO – from 75.56% to 82.37%;  
Izhstal OAO - from 62.32% to 87.67% (including 25.00% acquired at the specialized auction);  
Mezhdurechye OAO - from 13.03% to 16.13%; and  
Mechel Center Private Security Company OOO – from 10% to 99%.

In connection with the reorganization in 2005 of Chelyabenergo OAO, which shares were owned by the Company, Mechel OAO became the owner of the shares of the spin-off companies:

Chelyabenergo OAO – 3.18%

Southern Urals GRES OAO – 3.18%

Chelyabinsk Generating Company OAO – 3.18%

Chelyabinsk Main Power Grid OAO – 3.18%

Chelyabinsk Management Energy Company OAO – 3.18%; and

Chelyabenergosbyt OAO -3.18%

OAO Mechel sold the above blocks of shares of the spin-of companies, except those of Chelyabinsk Main Power Grid OAO, by the end of 2005.

The Company's Board of Directors approved the following in 2005:

- Bylaw on the Prohibition and Prevention of Insider Trading;
- Bylaw on the Internal Audit;
- Bylaw on Use of Information of Mechel Open Joint Stock Company, Which Disclosure May Have Significant Influence on Market Value of the Company's Securities, which regulates the procedure for use of significant information on the Company's activities, the Company itself, and its affiliated persons, on shares and other securities of the Company and/or its affiliated persons and on transactions with them, which information is not known to any third parties, not in a public domain, and which disclosure may have significant influence on market value of the shares and other securities of the Company, which information also conforms to the other requirements stipulated in this Bylaw. The Bylaw stipulates also restrictions on making transactions using the foregoing information, determines a circle of people possessing such information, and stipulates responsibility for breaching requirements of this Bylaw;
- Bylaw on Mechel OAO's Policy Regarding Statements on Violations in the Field of Reporting, Internal Control, Audit Issues, and Cases of Fraud, and Investigation Procedure; and
- Amendments and Additions to the Bylaw on the Prohibition and Prevention of Insider Trading.

## ***5. PROSPECTS FOR THE COMPANY'S DEVELOPMENT***

**Expected results of the Company development along the priority lines in the Company's Activities are as follows:**

In perspective, the Company plans to expand its activities in the following directions:

- lease of trade marks under license contracts;
- search and selection of potential partners, review of their business reputation and financial status;
- provision of support to contracts and investment projects carried out by the Group's subsidiaries;
- provision of business plans and feasibility studies;
- analysis of financial status and financial and business operations results of the companies;
- determination of prospects for company development;

- work with guarantors;
- proposals for placement of orders with the Group's subsidiaries;
- arrangement of seminars and consultations in economics and management.

The Company intends to carry out further actions aimed at improving quality of the management services and consulting provided to entities that are parts of the same group of entities as the Company and comprise one business. Doing it, the Company will also use foreign experience while providing management consulting services, specifically:

- Transition from 'consultation' to 'consulting', from position of 'adviser' to position of 'participant in the process of mastering innovations', *i.e.* the focus is to be shifted from simple transferring experience of leading companies to focusing efforts of consulting specialists on the process of practical mastering of innovations;

- All-round transition to teamwork method, which would improve quality of the services. Transition to teamwork method in connection with complication of the business activities is quite natural. This ensures both improvements of services quality and wide coverage of problems that are solved with reduction of consulting time. Development of this process will be undoubtedly continued further in accordance with complication of forms of business, thus determining diversity of consulting activities;

- Orientation to mastering, which implies revision of strategy of organizational design works. If at an early phase of consulting services development a consulting circle is clearly indicated in the form of the following stages: examination and data collection, organizational project development, organizational project approval with customer, training and making necessary changes; then, in a new situation, different approach has to be taken, *i.e.* brief organizational examination and development of an outline of a new scheme for managing a company with concurrent implementation of proposed changes along indicated specified directions.

The Company also plans to expand its activities in the following fields:

- registration and lease of trademarks under license contracts;
- production development and management;
- carrying out of marketing researches;
- search and selection of potential partners, review of their business reputation and financial status;
- provision of support to contracts and investment projects;
- provision of business plans and feasibility studies;
- analysis of financial status and financial and business operations results;
- determination of prospects for company development;
- search of potential strategic partners;
- work with guarantors;
- proposals for placement of orders with the Group's subsidiaries;
- arrangement of seminars and consultations in economics and management.

## **6. REPORT ON PAY-OUT OF DECLARED (ACCRUED) DIVIDENDS ON THE COMPANY SHARES**

The Resolution was made at the Annual General Shareholders' Meeting on June 28, 2005, to pay out dividends for 2004, as follows:

- To pay out dividends on ordinary registered non-documentary shares based on the Company's operational results for 2004 in the amount of RUR **13.70** per share.
- To effect payment with cash disbursement via non-cash transaction no later then **December 31, 2005**.

The total of net profit allocated in 2005 to pay out dividends for 2004 amounted to RUR **5,702,909,206.50**.

The total of the dividends paid for 2004, with the account of the taxes, was RUR 5,702,909,138 (Five billion seven hundred two million nine hundred nine thousand one hundred thirty eight rubles), as of December 31, 2005, *i.e.* the Company has not paid out in full the dividends declared on the Company shares.

As of December 31, 2005, the total amount of the debt, taking into account the income tax, was RUR 68.50 in connection with the shareholder's failure to provide information on the banking details necessary to transfer the dividends accrued on the ordinary registered shares owned by the shareholder.

## ***7. DESCRIPTION OF THE MAIN RISK FACTORS RELATED TO THE COMPANY'S ACTIVITIES***

### **Industry Risks**

The main type of the Company's activities is providing comprehensive services in the field of management and providing informational and consulting services.

The Company does not see at present any possible changes in legislation and market conditions in the field of providing consulting services that would significantly affect the Company's activities.

The main type of the Company's activities is not connected with production and purchase of raw materials. In this connection, any change in raw materials prices would not affect the activities the Company carries out. Change in raw materials prices may affect the subsidiaries of Mechel OAO. In particular, decline in raw materials process might allow the Company to allot flows (of both cash and commodities) between the Group's subsidiaries more efficiently.

### **Country and Regional Risks**

The Company provides comprehensive services both in the Russian Federation and in a number of foreign countries and is exposed to all risks related to political and economic environment in such countries. In case of any impairment of the Company's main activities due to a change in a country environment, the Company contemplates correcting its plans to ensure financial discipline and maintain the price of its shares.

Probability of military conflicts, in the regions of the Company's activities is extremely low.

Geographic features of the regions where the Company operates do not influence significantly on its activities. Risks related to potential danger of natural calamities and possibility of discontinuance of traffic is insignificant.

### **Financial Risks**

Considering types of the core activities of the Company, it is possible to state that the Company is exposed to risks related to alteration of refinance rate and exchange rate established by the Russian Federation Central Bank.

The Company makes settlements in currency in the course of its activities and also has investments denominated in foreign currency. It may consequently be concluded that the Company is exposed to exchange rate fluctuations (currency risk). Specifically, a decline in ruble to foreign currency exchange rate might result in relative devaluation of the Company's assets denominated in rubles while its strengthening might result in relative increase of the Company's costs and obligations.

Alteration of interest rates might affect the Company with regard to the Company's operations in borrowing monetary resources. Specifically, in case of borrowing monetary resources in the form of bank loans with 'floating' interest rate, potential increase of general level of interest rates on the Russian market would result in increase of the funds to be paid as interest repayment and that would adversely affect the

financial state of the Company. A decrease of the interest rates level, with other conditions being equal, might decrease efficiency of the Company's current borrowings based on a fixed interest rate.

In case of any unfavorable alterations of exchange rate, the Company contemplates increasing degree of accordance of assets and liabilities structure with revenues and costs with regard to currencies and dates of maturity. In case of unfavorable alteration of interest rates, the Company contemplates using opportunities for refinancing and earlier repayment of debts.

Inflation may adversely affect payments on the Company's securities (*e.g.* cause devaluation of amounts of such payments from the moment of declaring a payment till actual effecting it). In the Company's opinion, critically significance would have aggregate inflation rate during three consecutive years, provided they come to 100% and higher (hyperinflation). The Company intends to minimize inflation risk for the holders of its securities by means of bringing dates of declaring payments on the Company's securities and dates of actual payments on its securities as close as possible.

The financial risks described above may mostly affect sales proceeds, costs, and financial (monetary) items in the balance sheet, bank and loan liabilities, and resources on the Company's accounts. Probability of aversive affect of the above risks on the Company's operational results is insignificant.

## **Legal Risks**

Legal risks related to the issuer's activities, including risks related to the following:

*Change in currency regulation:* **do not affect**

On the whole, it is necessary to note that, with the new version of the Federal Law on Currency Regulation and Currency Control (version of the Federal Law N 58-FZ as of June 29, 2004) coming into effect, quite important changes have occurred in the field of the Russian Federation currency regulation and currency control. It is enough to note that the above mentioned law does not provide at all for the necessity to obtain individual permits to carry out currency operations having excluded completely any responsibility for performing currency operations with no special permit (license) and/or with any breach of the requirements (conditions, restrictions) set forth in a special permit (license);

*Change in tax legislation:* The Company's activities are also affected by risks related to change in the Russian Federation tax legislation and practice of its application. The current tendency in the Russia's tax system changes is decrease of taxes affecting economic trade and production activities (income tax, VAT, and unified social tax). However, regardless of abrogation of a number of taxes, tax burden remains stiff. At that, the Russian federation tax legislation does not become clearer and easier to understand.

Serious problems also exist in the field of tax legislation stability, predictability of changes in taxation rules and law enforcement practice in the above field. At preset, judicial practice in the field of tax legislation application exerts significant influence. As a typical example, Ruling of the Russian Federation Constitutional Court No. 169-O dated April 8, 2004, may be adduced on introducing completely new rules in regarding possibilities to offset VAT.

In the Companies opinion, tax risks affect the Company in the same way as they affect all other market players.

*Changes in customs control rules and duties:* legal risks related to changes in customs control rules and duties do not affect the Company's activities significantly.

**8. LIST OF TRANSACTIONS MADE IN THE REPORTING PERIOD THAT ARE RECOGNIZED AS LARGE-SCALE TRANSACTIONS IN COMPLIANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES AND OTHER TRANSACTIONS FOR CONCLUSION OF WHICH THE PROCEDURE FOR APPROVING MAJOR TRANSACTIONS IS APPLIED PURSUANT TO THE COMPANY'S CHARTER, WITH INDICATION OF SIGNIFICANT CONDITIONS FOR EACH TRANSACTION AND THE MANAGEMENT BODY OF THE COMPANY THAT MADE RESOLUTION TO APPROVE IT; AND LIST OF TRANSACTIONS MADE IN THE REPORTING PERIOD THAT ARE RECOGNIZED AS TRANSACTIONS OF INTEREST IN COMPLIANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES, WITH INDICATION OF THE**

***INTERESTED PARTY (PARTIES) FOR EACH TRANSACTION, SIGNIFICANT CONDITIONS OF SUCH TRANSACTION, AND THE MANAGEMENT BODY OF THE COMPANY THAT MADE RESOLUTION TO APPROVE IT***

1. The Board of Directors approved conclusion of the loan agreement as the transaction of interest: Parties (beneficiaries) of the transaction:

- Mechel Steel Group Open Joint Stock Company (Mechel Open Joint Stock Company from July 19, 2005); and
- Chelyabinsk Metallurgical Plant Open Joint Stock Company.

Subject of the transaction:

In accordance with the Loan Agreement, Mechel Steel Group Open Joint Stock Company (the Lender) undertakes to grant monetary resources to Chelyabinsk Metallurgical Plant Open Joint Stock Company (the Borrower), and the Borrower undertakes to repay the amount to be received under the Loan Agreement and to pay out the interest for utilization of the monetary resources.

Price of the transaction and its other essential conditions:

- a) total amount of the monetary resources to be granted under the Loan Agreement shall be RUR 200,000,000.00 (Russian Rubles Two hundred million);
- b) interest rate for utilization of the loan shall be at 11% (eleven percent) per annum;
- c) tenor of the loan shall be from February 07, 2005, till February 07, 2008;
- d) purposes of the loan shall be: financing of capital expenditures; and
- e) the Borrower shall be entitled to earlier repayment of the loan amount and a respective interest, in part or in full, without any additional consent from the Lender.

2. The Board of Directors approved conclusion of the purchase and sale contract for the securities as a transaction of interest between Temirkom Investment Company OOO (the Seller) and Mechel Open Joint Stock Company (the Buyer), pursuant to which contract the Seller transfers, and the Buyer accepts and pays for, 284 (two hundred eighty four) ordinary registered non-documentary shares of Beloretsk Metallurgical Plant Open Joint Stock Company at the rate of RUR200.00 (Russian Rubles Two hundred) per one share and 504 (five hundred four) privileged registered non-documentary shares of Beloretsk Metallurgical Plant Open Joint Stock Company at the rate of RUR100.00 (Russian Rubles One hundred) per one share, the total amount being RUR107,200.00 (Russian Rubles One hundred seven thousand two hundred and 00 kopecks).

3. The Board of Directors approved conclusion of the purchase and sale contract for the securities as a transaction of interest between Mechel Trading House OOO (the Seller) and Mechel Open Joint Stock Company (the Buyer), pursuant to which contract the Seller transfers, and the Buyer accepts and pays for, the 89% (eighty-nine percent) share in the charter capital of Mechel-Center Private Security Firm OOO in the amount of RUR10,000.00 (Russian Rubles Ten thousand) for the foregoing share.

4. The Board of Directors approved conclusion of the loan agreement as the transaction of interest: Parties (beneficiaries) of the transaction: Mechel Trading AG and Mechel OAO.

Subject of the transaction and other essential conditions of the transaction: Mechel Trading AG undertakes to lend monetary resources to Mechel OAO, and Mechel OAO undertakes to repay the amount received under the loan agreement to Mechel Trading AG and to pay out interest for utilization of the monetary resources.

Price of the transaction and other essential conditions of the transaction: maximum cap of the monetary resources granted under the loan agreement amounts to US\$ 199.0 million; 20.46 % of the book value of the Issuer's assets on the date of the last finished reporting period end preceding the date of the transaction closure, the term for fulfilling the obligations under the transaction to be October 15, 2008.

***9. COMPOSITION OF THE COMPANY'S BOARD OF DIRECTORS WITH INFORMATION ON CHANGES IN MEMBERSHIP OF THE COMPANY'S BOARD OF DIRECTORS OCCURRED IN THE REPORTING YEAR, AND INFORMATION ON MEMBERS OF THE COMPANY'S BOARD OF DIRECTORS INCLUDING THEIR BIOGRAPHIES AND SHAREHOLDING DURING THE REPORTING YEAR***

**Composition of the Company's Board of Directors during the period from October 14, 2004, to June 28, 2005; and from June 28, 2005, to the present:**

Igor V. Zyuzin – Chairman of the Board of Directors  
 Alexander E. Yevtushenko  
 Alexey G. Ivanushkin  
 Vladimir F. Iorich  
 Serafim V. Kolpakov  
 Valentin V. Proskurnya  
 A. David Johnson  
 Roger I. Gale  
 Sir Andrew M. Wood

No.	Full Name of Member of the Board of Directors	Brief Biographic Data of Member of the Board of Directors	Information on Ownership of the Company Shares During the Reporting Year
1.	<b>Igor V. Zyuzin</b>	Year of birth: 1960. Education: - Mining Engineer, doctorate in coal mining from Tula Polytechnic University; - Degree in coal mining engineering economics from Kuzbass Polytechnic Institute. Professional activities and positions held during the last five years: From October 1993 to December 2003: Deputy General Director of Kuzbass Central Processing Plant OAO. From 2003 and currently: <b>Chairman of the Board of Directors of Mechel Open Joint Stock Company.</b> From 1999 and currently: Chairman of the Board of Directors of Southern Kuzbass Coal Company OAO. From 2001 and currently: Member of the Board of Directors of Chelyabinsk Metallurgical Plant Open Joint Stock Company.	As of December 31, 2004. Mr. Zyuzin owned the shares comprising 19.65% of the Company charter capital.
2.	<b>Alexander E. Yevtushenko</b>	Year of birth: 1947. Education: Degree in mining engineering from the Siberian Metallurgical Institute. Master's degree from Moscow Mining Institute and Doctor's degree.  Professorship with the Russian Federation Ministry of General and Professional Education.  Professional activities and positions held during the last five years: From 1999 to 2000: President of the General Committee of Inter-State Eurasian Association of Coal and Metals.	Mr. Yevtushenko owned no shares of the Company during the reporting year.

		<p>From 2001 to 2004: First Vice President of Sokolovskaya OAO holding company.</p> <p>From 2004 and currently: Chairman of the Mining Development Strategy Committee of the Board of Directors of Mechel OAO.</p>	
3.	<b>Alexey G. Ivanushkin</b>	<p>Year of birth: 1962.</p> <p>Education: Degree in economics and international affairs from the Moscow State University of Foreign Relations (MGIMO).</p> <p>Professional activities and positions held during the last five years:</p> <p>From 1999 to 2002: General Director of r Chelyabinsk Metallurgical Plant Open Joint Stock Company.</p> <p>From 2003 to January 15, 2004, General Director of Mechel Open Joint Stock Company.</p> <p>From June 2004 to October 2004: General Director Southern Kuzbass Coal Company OAO.</p> <p>From January 16, 2004, and currently Chief Operating Officer of Mechel Open Joint Stock Company.</p>	<p>Mr. Ivanushkin owned no shares of the Company during the reporting year.</p>
4.	<b>Vladimir F. Iorich</b>	<p>Year of birth: 1958.</p> <p>Education: Degree in engineering and economics from Kemerovo State Polytechnic University.</p> <p>Professional activities and positions held during the last five years:</p> <p>From January 16, 2004, and currently: Chief Executive Officer of Mechel Open Joint Stock Company.</p> <p>From 2001 to December 2004: President and Member of the Management Board of Mechel Trading AG.</p> <p>From 2000 to December 2004: General Director of Mechel Supply Limited.</p> <p>From 1995 and currently: Director of Conares Holding AG.</p>	<p>As of December 31, 2004, Mr. Iorich owned the shares comprising 15.5 % of the Company charter capital.</p>
5.	<b>Serafim V. Kolpakov</b>	<p>Year of birth: 1933.</p> <p>Education: Engineering degree from the Moscow Institute of Steel and Alloys, Doctor's degree from the Central Scientific Research Institute of Ferrous Metals, Doctor of technical Sciences, Professor.</p> <p>Professional activities and positions held during the last five years:</p> <p>From 1992 and currently: President of the International Metallurgists Union.</p> <p>From October 2004 and currently: Chairman of the Steel Development Strategy Committee of the Board of Directors of Mechel Open Joint Stock Company.</p>	<p>Mr. Kolpakov owned no shares of the Company during the reporting year.</p>
6.	<b>Valentin V. Proskurnya</b>	<p>Year of birth: 1945.</p> <p>Education: Degree in labor economics from the</p>	<p>Mr. Proskurnya owned no shares</p>

		<p>Higher School of Trade Unions.</p> <p>Professional activities and positions held during the last five years:</p> <p>From 1998 to 2001: First Deputy General Director Southern Kuzbass Coal Company OAO.</p> <p>From 2001 to 2002: General Director of Uglemet-M Limited Liability Company.</p> <p>From 2002 to 2003: Deputy General Director of Mechel Trading House Limited liability Company (Uglemet Trading OOO until August 8, 2003).</p> <p>From 2001 and currently: Member of the Board of Directors of Chelyabinsk Metallurgical Plant Open Joint Stock Company.</p> <p>From 2001 and currently: Member of the Board of Directors of Southern Kuzbass Coal Company OAO.</p> <p>From October 2004 and currently: Chairman of the Strategy, Planning, and Coordination Committee of Mechel OAO.</p>	of the Company during the reporting year.
7.	<b>A. David Johnson</b>	<p>Year of birth: 1937.</p> <p>Education: Certificate of qualified mining engineer from the UK Mining Qualifications Board.</p> <p>Professional activities and positions held during the last five years:</p> <p>From 1990 to 2002: Managing Director of Joy Mining Machinery UK Ltd.</p> <p>From 2002 and currently: Chairman of the Board of Directors of Joy Mining Machinery UK Ltd.</p>	Mr. Johnson owned no shares of the Company during the reporting year.
8.	<b>Roger I. Gale</b>	<p>Year of birth: 1952.</p> <p>Education:</p> <p>Higher National Diploma from The Royal Agricultural College, degree of Master of Economics from the University of New England (Australia).</p> <p>Professional activities and positions held during the last five years:</p> <p>From 1999 to 2001: Chairman of the Management Board of End2End Wireless Limited.</p> <p>From 2001 and currently: Chairman of the Board of Directors and Chief Executive Officer of Wavcrest Group Enterprises Limited.</p> <p>From 2001 and currently: Director of Starnorth Limited.</p> <p>From October 2004 and currently: Chairman of the Audit Committee of the Board of Directors of Mechel Open Joint Stock Company.</p>	Mr. Gale owned no shares of the Company during the reporting year.
9.	<b>Sir Andrew M. Wood</b>	<p>Year of birth: 1940.</p> <p>Education:</p> <p>B.A. and M.A. from King's College, Cambridge.</p> <p>Professional activities and positions held during the last five years:</p> <p>From 2000 and currently: Director of the Foreign and Colonial Investment Trust.</p>	Sir Andrew M. Wood owned no shares of the Company during the reporting year.

		From 2000 and currently: Director of The PBN Company. From 2000 and currently: Chairman of the Board of the Russo-British Chamber of Commerce.	
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### **10. INFORMATION ON THE PERSON HOLDING THE POSITION OF THE SOLE EXECUTIVE BODY**

Functions of the sole executive body of the Company – Chief Executive Officer of the Company – during the reporting years were performed by Vladimir F. Iorich (please refer to Section 9 of this Report for the information on the person holding the position of the sole executive body of the Company).

### **11. CRITERIA FOR DETERMINATION AND AMOUNT OF COMPENSATION FOR THE PERSON HOLDING THE POSITION OF THE SOLE EXECUTIVE BODY AND FOR EACH OF THE MEMBERS OF THE COMPANY'S BOARD OF DIRECTORS TO BE PAID OR PAYABLE BASED ON THE REPORTING PERIOD RESULTS**

Compensation to the Chief Executive Officer is payable in the amount and on the conditions stipulated in the labor contract concluded between the Chief Executive Officer and the company.

Compensation to the Members of the Board of Directors is payable based on the resolution of the General Shareholders' Meeting in accordance with the Bylaw on Remuneration to Members of the Board of Directors of Mechel OAO and Compensation of Their Expenses Connected with Their Execution of Functions of Members of the Board of Directors.

### **12. INFORMATION ON THE COMPANY'S COMPLIANCE WITH ITS CODE OF BUSINESS CONDUCT AND ETHICS**

<b>№</b>	<b>List of norms of Code of Business Conduct and Ethics</b>	<b>Compliance (complete, partial, noncompliance)</b>	<b>Note*</b>
<b>General requirements to issuers</b>			
1.	Issuer must form a board of directors to be elected by cumulative voting.	<b>Complete compliance</b>	<b>Document (with requisite details) fixating this provision and No. of clause/article:</b> Clause 18.4 of the Mechel OAO Charter (new version) approved by the Annual General Shareholders' Meeting of Mechel OAO dated June 28, 2005, registered on July 19, 2005(hereinafter referred to as "the Mechel OAO Charter").
2.	Board of Directors of an issuer must include at least one (1) independent director, who meets the following requirements:  <ul style="list-style-type: none"> <li>• who have not been in the last 3 years and are not currently</li> </ul>	<b>Complete compliance</b>          <b>Complete compliance</b>	<b>Document (with requisite details) fixating this provision and No. of clause/article:</b> Clause 18.2. of the Mechel OAO Charter. <u>Names of Independent Directors:</u> 1. Alexander E. Yevtushenko 2. Serafim V. Kolpakov 3. A. David Johnson 4. Roger I. Gale 5. Sir Andrew M. Wood

	<p>officers or employees of an issuer;</p> <ul style="list-style-type: none"> <li>• who is not an officer of another company in which any officer of the issuer is a member of the personnel and compensation committee of the board of directors;</li> <li>• who are not a spouse, parent, child, sibling of any officer of the issuer;</li> <li>• who is not an affiliate of the issuer or an affiliate of such an affiliate;</li> </ul> <ul style="list-style-type: none"> <li>• is not a party to obligations of the issuer pursuant to which the director could acquire property (or receive money) in an amount equal to or greater than 10 percent of his or her total annual income, other than compensation for participation in the Board of Directors of the issuer;</li> <li>• who is not a representative of the State;</li> <li>• have not been members of the Board of Directors for more than 5 years.</li> </ul>	<p><b>Complete compliance</b></p> <p><b>Complete compliance</b></p> <p><b>Complete compliance</b></p>  <p><b>Complete compliance</b></p> <p><b>Complete compliance</b></p>	<p>In compliance with clause 18.2 of the Mechel OAO Charter, membership of the Board of Directors of Mechel OAO is nine (9) people of whom at least one third of elected directors are independent.</p> <p>At present, five elected Members of the Board of Directors of Mechel OAO are recognized independent directors in accordance with the requirements of Mechel OAO Charter.</p> <p>Independent directors are not affiliates of the Issuer's affiliates.</p>
3.	<p><i>A committee must be formed in an issuer's board of directors, which exclusive functions shall be evaluation of candidates for auditors of a joint stock company, consideration of an auditor's opinion, evaluation of efficiency of the issuer's internal control procedures, and preparation of proposals for improving them (audit committee,) such committee to be headed by an independent director.</i></p> <p>An audit committee must include only independent directors, and, should this be impossible due to objective reasons, only independent and non-executive directors (directors not being the sole executive body and/or members of collective executive body of the issuer).</p>	<p><b>Complete compliance</b></p>	<p><b>Documents (with requisite details) fixating these functions of the Committee and No. of clause/article:</b></p> <ul style="list-style-type: none"> <li>- Clause 18.12. of Mechel OAO Charter, and Articles 33 and 37 of the Bylaw on the Board of Directors of Mechel Steel Group Open Joint Stock Company approved by the Extraordinary General Shareholders' Meeting of Mechel OAO, Minutes No. 4 dated October 27, 2004.</li> <li>- Bylaw on the Audit Committee of the Board of Directors of Mechel Steel Group Open Joint Stock Company approved by the Board of Directors of Mechel OAO on October 14, 2004.</li> </ul>

	Results of consideration of opinion of an issuers' auditor prepared by an audit committee must be presented as materials for an annual general meeting of the issuer's participants.	<b>Complete compliance</b>	<p><u>Name of the Committee Head and members of the Committee (specifying independent and/or non-executive directors):</u></p> <ol style="list-style-type: none"> <li>1. Roger I. Gale – Chairman of the Committee.</li> <li>2. Sir Andrew M. Wood</li> <li>3. A. David Johnson</li> </ol> <p>All of the above persons are independent directors.</p> <p><b>Documents fixating this provision or information on presenting such materials to the annual meeting:</b></p> <p>Bylaw on the Audit Committee of the Board of Directors of Mechel Steel Group Open Joint Stock Company approved by the Board of Directors of Mechel OAO on October 14, 2004.</p>
4.	Internal documents of an issuer must provide for obligations of members of the board of directors, members of collective executive bodies, and a person fulfilling functions of a sole executive body, including managing organization and its officers, to disclose information on holding of the issuer's securities and on sale and/or purchase of the issuer's securities.	<b>Complete compliance</b>	<p><b>Documents (with requisite details) fixating such obligations for each of the management body and No. of the clause/article:</b></p> <p>Clauses 18.23. and 19.12. of the Mechel OAO Charter.</p> <p>The Mechel OAO Charter does not provide for establishment of a collective executive body.</p>
5.	An issuer must disclose information on amount of compensations received by members of the board of directors, members of collective executive body and a person fulfilling functions of a sole executive body, including managing organization and manager.	<b>Complete compliance</b>	<p>Total amount of compensation to the Members of the Board of Directors and to the sole executive body is disclosed in a quarterly report of the issuer for a respective reporting period.</p> <p>The last published quarterly report of Mechel OAO is the 2005 Quarter 4 Report (para.5.3.).</p> <p>Address of the site in the Internet on which information on compensation to the members of the management bodies is published is: <a href="http://www.mechel.ru">http://www.mechel.ru</a></p>
6.	An issuer's board of directors must approve a document on use of information on the issuer's activities, on securities of the company and transactions with them, which is not public, and which disclosure may significantly affect market value of the issuer's securities.	<b>Complete compliance</b>	<p><u>Documents (with requisite details) or provisions fixating this norm in other document and No. of the clause/article:</u></p> <p>Bylaw On Use of Information of Mechel Steel Group Open Joint Stock Company, Which Disclosure May Have Significant Influence on Market Value of the Company's Securities, approved by the Board of Directors of OAO Mechel, Minutes unnumbered of January 21, 2005.</p>
7.	An issuer's board of directors must approve a document determining procedures of internal control over financial and economic activities of the issuer, control over compliance with	<b>Complete compliance</b>	<p><b>Documents (with requisite details) confirming establishment of the Audit Commission:</b></p> <p>Minutes of the Annual General</p>

	<p>which is to be performed by a separate organizational unit of the issuer, which has to report on any breaches revealed to the audit committee.</p>		<p>Shareholders' Meeting of Mechel OAO dated June 28, 2005.</p> <p>Documents (with requisite details) determining such procedures and No. of the clause/article:  <u>the body approved the required document:</u>          Bylaw on the Audit Commission of Mechel Open Joint Stock Company approved by the Extraordinary general Shareholders' meeting of Mechel OAO, Minutes No.2 dated April 29, 2004.</p> <p><u>Document confirming establishment of such unit:</u>          Order by the Chief Executive Officer of Mechel OAO No. 109 dated December 10, 2004.</p> <p>Documents (with requisite details) determining such procedures and No. of the clause/article, and <u>the body approved the required document:</u>  <b>Bylaw on the Internal Audit of Mechel Steel Group Open Joint Stock Company approved by the Board of Directors of Mechel OAO, Minutes unnumbered dated December 10, 2004.</b></p>
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<b>Additional requirements to issuers being joint stock companies</b>			
8.	<p>Notice on conduction of a general shareholders' meeting must be made no later than thirty (30) days prior to conducting it, unless the legislation provides for a greater period.</p>	<p><b>Complete compliance</b></p>	<p><b>Documents (with requisite details) fixating this provision and No. of the clause/article:</b>          Clause 17.10. of the Mechel OAO Charter.</p>
9.	<p>The joint stock company has committed itself not to release an acquirer from obligation to offer the shareholders to sell common shares of the company owned by them (emissive securities convertible into common shares) when acquiring 30 percent and more of the common shares of the joint stock company.</p>	<p><b>Complete compliance</b></p>	<p><u>Documents (with requisite details) fixating this obligation and No. of the clause/article:</u>          In compliance with modifications and amendments to the Mechel OAO Charter, clause 11.9. stipulating such right is excluded.</p>

For the purpose to increase efficiency and quality of the work of the Board of Directors, the following Committees have been operating in 2005 for preliminary consideration of the most important questions related to the competence of the Board of Directors:

- Strategy, Planning, and Coordination Committee;
- Audit Committee;
- Mining Development Strategy Committee; and
- Steel Development Strategy Committee.

### **13. OTHER INFORMATION**

There is no any other information.