

Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

**Unaudited Condensed Consolidated Interim
Financial Statements**

For the Three Months Ended 31 March 2012

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2012	1
INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	2
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2012:	
Unaudited condensed consolidated interim statement of comprehensive income	3
Unaudited condensed consolidated interim statement of financial position	4
Unaudited condensed consolidated interim statement of changes in equity	5
Unaudited condensed consolidated interim statement of cash flows	6-7
Notes to the unaudited condensed consolidated interim financial statements	8-19

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2012

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' review report on the unaudited condensed consolidated interim financial statements set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the unaudited condensed consolidated interim financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group").

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements that present fairly the financial position of the Group at 31 March 2012, and the results of its operations, changes in equity and cash flows for the three months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the unaudited condensed consolidated interim financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:


- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2012 were approved on 13 June 2012 by:



B. A. Dubrovsky
General Director

13 June 2012
Magnitogorsk, Russia



M. A. Zhemchueva
Chief Accountant



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Independent Auditors' Report on review of Condensed Consolidated Interim Financial Information

To the shareholders of OJSC Magnitogorsk Iron & Steel Works:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as at 31 March 2012, and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 31 March 2012 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
13 June 2012

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, except per share data)**

	Notes	Three months ended 31 March	
		2012	2011
REVENUE	5	2,425	2,216
COST OF SALES		(2,099)	(1,775)
GROSS PROFIT		326	441
General and administrative expenses		(136)	(144)
Selling and distribution expenses		(146)	(129)
Other operating expenses, net		(11)	(13)
OPERATING PROFIT		33	155
Share of results of associates		2	5
Finance income		4	4
Finance costs		(61)	(20)
Foreign exchange gain, net		89	74
Change in net assets attributable to non-controlling interest		1	4
Other income		4	3
Other expenses		(51)	(57)
PROFIT BEFORE INCOME TAX		21	168
INCOME TAX		(7)	(34)
PROFIT FOR THE PERIOD		14	134
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available-for-sale investments		240	(63)
Translation of foreign operations		(121)	66
Effect of translation to presentation currency		963	758
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		1,082	761
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,096	895
Profit attributable to:			
Shareholders of the Parent Company		15	144
Non-controlling interests		(1)	(10)
		14	134
Total comprehensive income attributable to:			
Shareholders of the Parent Company		1,097	839
Non-controlling interests		(1)	56
		1,096	895
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.001	0.013
Weighted average number of ordinary shares outstanding (in thousands)		11,007,922	11,007,613

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2012
(In millions of U.S. Dollars)**

	Notes	31 March 2012	31 December 2011
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	7	12,680	11,792
Goodwill		301	274
Other intangible assets		41	29
Investments in securities and other financial assets	8	1,075	785
Investments in associates		36	31
Deferred tax assets		129	110
Other non-current assets		15	8
Total non-current assets		<u>14,277</u>	<u>13,029</u>
CURRENT ASSETS:			
Inventories		1,660	1,776
Trade and other receivables		865	617
Investments in securities and other financial assets	8	58	47
Income tax receivable		116	83
Value added tax recoverable		264	304
Cash and cash equivalents	9	197	424
Assets classified as held for sale		16	15
Total current assets		<u>3,176</u>	<u>3,266</u>
TOTAL ASSETS		<u>17,453</u>	<u>16,295</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		386	386
Treasury shares		(172)	(176)
Share premium		1,109	1,110
Investments revaluation reserve		779	539
Translation reserve		(1,883)	(2,725)
Retained earnings		10,170	10,155
Equity attributable to shareholders of the Parent Company		<u>10,389</u>	<u>9,289</u>
Non-controlling interests		158	159
Total equity		<u>10,547</u>	<u>9,448</u>
NON-CURRENT LIABILITIES:			
Long-term borrowings	10	3,059	3,067
Obligations under finance leases		1	1
Retirement benefit obligations		30	27
Site restoration provision		50	44
Deferred tax liabilities		1,308	1,157
Total non-current liabilities		<u>4,448</u>	<u>4,296</u>
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	11	1,167	1,328
Current portion of obligations under finance leases		4	6
Current portion of retirement benefit obligations		3	3
Trade and other payables		1,263	1,194
Net assets attributable to minority participants		21	20
Total current liabilities		<u>2,458</u>	<u>2,551</u>
TOTAL EQUITY AND LIABILITIES		<u>17,453</u>	<u>16,295</u>

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars)

	Attributable to shareholders of the Parent Company						Non-controlling interests	Total Equity	
	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings			Total
BALANCE AT 1 JANUARY 2011	386	(176)	1,109	680	(2,294)	10,552	10,257	429	10,686
Profit for the period	-	-	-	-	-	144	144	(10)	134
Other comprehensive income for the period, net of tax	-	-	-	(63)	758	-	695	66	761
Total comprehensive income for the period	-	-	-	(63)	758	144	839	56	895
Purchase of treasury shares	-	(9)	-	-	-	-	(9)	-	(9)
Issuance of ordinary shares from treasury shares	-	15	(1)	-	-	-	14	-	14
Decrease in non-controlling interests due to increase of Group's share in subsidiaries	-	-	-	-	-	(1)	(1)	1	-
Increase in non-controlling interests due to additional share issue by subsidiary	-	-	-	-	-	-	-	28	28
Acquisition of non-controlling interest (Note 4)	-	-	-	-	-	(137)	(137)	(338)	(475)
BALANCE AT 31 MARCH 2011	386	(170)	1,108	617	(1,536)	10,558	10,963	176	11,139
BALANCE AT 1 JANUARY 2012	386	(176)	1,110	539	(2,725)	10,155	9,289	159	9,448
Profit for the period	-	-	-	-	-	15	15	(1)	14
Other comprehensive income for the period, net of tax	-	-	-	240	842	-	1,082	-	1,082
Total comprehensive income for the period	-	-	-	240	842	15	1,097	(1)	1,096
Issuance of ordinary shares from treasury shares	-	4	(1)	-	-	-	3	-	3
BALANCE AT 31 MARCH 2012	386	(172)	1,109	779	(1,883)	10,170	10,389	158	10,547

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars)**

	Three months ended 31 March	
	2012	2011
OPERATING ACTIVITIES:		
Profit for the period	14	134
Adjustments to profit for the period:		
Income tax	7	34
Depreciation and amortization	242	220
Finance costs	61	20
Loss on disposal of property, plant and equipment	16	23
Change in allowance for doubtful accounts receivable	-	4
Gain on revaluation and sale of trading securities	(3)	(4)
Inventory allowance and impairment	1	5
Finance income	(4)	(4)
Foreign exchange gain, net	(89)	(74)
Share of results of associates	(2)	(5)
Change in net assets attributable to non-controlling interest	(1)	(4)
	<u>242</u>	<u>349</u>
Movements in working capital		
Increase in trade and other receivables	(138)	(22)
Decrease/(increase) in value added tax recoverable	56	(9)
Decrease/(increase) in inventories	240	(164)
Decrease in investments classified as trading securities	-	2
(Decrease)/increase in trade and other payables	(3)	110
Cash generated from operations	<u>397</u>	<u>266</u>
Interest paid	(68)	(38)
Income tax paid	(10)	(30)
Net cash from operating activities	<u>319</u>	<u>198</u>
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(230)	(381)
Purchase of intangible assets	(11)	(1)
Proceeds from sale of property, plant and equipment	4	1
Acquisition of non controlling interest	-	(243)
Interest received	3	4
Loans provided to related party	(25)	-
Purchase of securities and other financial assets	-	(9)
Changes in letters of credit, net	(5)	7
Net cash used in investing activities	<u>(264)</u>	<u>(622)</u>

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2012 (CONTINUED)**

(In millions of U.S. Dollars)

	Three months ended 31 March	
	2012	2011
FINANCING ACTIVITIES:		
Proceeds from borrowings	473	668
Repayments of borrowings	(803)	(382)
Purchase of treasury shares	-	(9)
Proceeds from issuance of ordinary shares from treasury shares	3	14
Principal repayments of obligations under finance leases	(3)	(6)
Proceeds from capital transactions of subsidiaries	-	28
Net decrease in bank overdrafts	-	(1)
Net cash (used in)/generated from financing activities	<u>(330)</u>	<u>312</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(275)	(112)
CASH AND CASH EQUIVALENTS, beginning of period	424	515
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	48	57
CASH AND CASH EQUIVALENTS, end of period	<u>197</u>	<u>460</u>

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2012 (In millions of U.S. Dollars, unless otherwise stated)

1. GENERAL INFORMATION

OJSC Magnitogorsk Iron & Steel Works (“the Parent Company”) is an open joint stock company as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatization program.

The Parent Company, together with its subsidiaries (“the Group”), is a producer of ferrous metal products. The Group’s products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products. Since the acquisition of a controlling share in Belon Group, Russian coal producer, in October 2010, the Group is also engaged in coal mining and sale thereof.

As at 31 March 2012 the Parent Company’s major shareholders were Mintha Holding Limited with a 44.80% ownership interest and Fulnek Enterprises Limited with a 41.01% ownership interest (31 December 2011: 44.80% and 41.01%, respectively).

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors.

The effective and nominal ownership holdings of the Group’s principal subsidiaries at 31 March 2012 did not change from 31 December 2011.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed consolidated interim financial statements for the three months ended 31 March 2012 have been prepared in accordance with IAS 34 “Interim financial reporting” (“IAS 34”). The statement of financial position at 31 December 2011 has been derived from the statement of financial position included in the Group’s financial statements at 31 December 2011. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2011.

Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

Basis of preparation

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis except for the market-to-market valuation of certain financial instruments which are reported in accordance with IAS 39 “Financial instruments: recognition and measurement”.

3. SEASONAL OPERATIONS

The Group’s operations are not affected significantly by seasonal or cyclical factors during the financial year.

4. ACQUISITION OF NON-CONTROLLING INTEREST

During the year ended 31 December 2011, a subsidiary of the Parent Company, MMK Atakas Metalurji, issued additional ordinary shares for total nominal values of USD 56 million. These additional shares issued were purchased by the Group and minority shareholders in proportion to their existing ownership.

In September 2011 the Group finalized the acquisition of a non-controlling interest of 50% minus 1 share of MMK Atakas Metalurji for a consideration of USD 475 million, increasing the Group’s ownership interest to 100%. Thereafter the company was renamed to MMK Metalurji.

5. REVENUE

By product	Three months ended 31 March	
	2012	2011
Rolled steel	1,467	1,409
Galvanized steel	205	139
Assorted rolled products	221	166
Coal	21	39
Tin plated steel	47	51
Galvanized steel with polymeric coating	136	66
Formed section	48	56
Coking production	39	46
Hardware products	30	40
Wire, sling, bracing	67	68
Band	23	26
Tubes	17	13
Scrap	9	9
Slabs	6	6
Others	89	82
Total	2,425	2,216

By customer destination	Three months ended 31 March	
	2012	2011
Russian Federation and the CIS	70%	77%
Iran	6%	7%
Turkey	9%	4%
Italy	2%	3%
Vietnam	3%	1%
USA	2%	-
Others (countries each representing less than 2% of total net revenue)	8%	8%
Total	100%	100%

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2012 (In millions of U.S. Dollars, unless otherwise stated)

6. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

In May 2011, the Group changed its management structure and internal organization, which resulted in a revision of its reportable segments. The Group has identified the General Director of the Parent Company as its CODM.

Based on the current management structure and internal reporting the Group has identified the following segments:

- *Steel segment (Russia)*, which includes Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk (Russian Federation);
- *Steel segment (Turkey)*, which includes MMK Metalurji involved in production of steel. The two sites of this segment are located in Iskenderun and Istanbul (Turkey).
- *Coal mining segment*, which includes OJSC Belon and its subsidiaries ("Belon Group") involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo (Russian Federation).

Prior to the changes in management structure the Group reported two operating segments: steel and coal mining.

The profitability of the three operating segments is primarily measured by CODM based on Segment EBITDA. Segment EBITDA is determined as segment's operating profit adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including the impairment of investments in associates. Since this term is not a standard measure in IFRS the Group's definition of EBITDA may differ from that of other companies.

Inter-segment pricing is determined on a consistent basis using market benchmarks.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

The following table presents measures of segment results for the three months ended 31 March 2012 and 2011:

	Three months ended 31 March									
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
Revenue										
Sales to external customers	2,201	2,142	203	36	21	38	-	-	2,425	2,216
Inter-segment sales	31	45	12		109	120	(152)	(165)	-	-
Total revenue	2,232	2,187	215	36	130	158	(152)	(165)	2,425	2,216
Segment EBITDA	267	337	(18)	(4)	42	70	2	-	293	403
Depreciation and amortisation	(197)	(192)	(28)	(10)	(17)	(18)	-	-	(242)	(220)
Loss on disposal of property, plant and equipment	(16)	(20)	-	-	-	(3)	-	-	(16)	(23)
Share of results of associates	(2)	(5)	-	-	-	-	-	-	(2)	(5)
Operating profit per IFRS financial statements	52	120	(46)	(14)	25	49	2	-	33	155

A reconciliation from operating profit per IFRS financial statements to profit before taxation is included in the condensed consolidated interim statement of comprehensive income.

At 31 March 2012 and 31 December 2011, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 March 2012				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	16,309	2,056	991	(1,903)	17,453
Total liabilities	5,744	1,606	343	(772)	6,921
	31 December 2011				
	Steel (Russia)	Steel (Turkey)	Coal mining	Eliminations	Total
Total assets	15,108	2,101	904	(1,818)	16,295
Total liabilities	5,643	1,597	326	(719)	6,847

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans- portation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
<i>Gross book value</i>							
At 1 January 2011	3,775	8,121	266	206	308	2,309	14,985
Additions	7	52	2	2	-	319	382
Transfers	45	63	4	4	-	(116)	-
Disposals	(11)	(23)	(1)	-	-	(3)	(38)
Effect of translation to presentation currency	272	587	19	14	23	172	1,087
At 31 March 2011	4,088	8,800	290	226	331	2,681	16,416
<i>Depreciation</i>							
At 1 January 2011	(672)	(1,909)	(97)	(56)	(25)	-	(2,759)
Charge for the period	(36)	(166)	(7)	(5)	(5)	-	(219)
Disposals	4	11	1	-	-	-	16
Effect of translation to presentation currency	(49)	(143)	(8)	(3)	(2)	-	(205)
At 31 March 2011	(753)	(2,207)	(111)	(64)	(32)	-	(3,167)
<i>Carrying amount</i>							
At 01 January 2011	3,103	6,212	169	150	283	2,309	12,226
At 31 March 2011	3,335	6,593	179	162	299	2,681	13,249
<i>Gross book value</i>							
At 1 January 2012	4,186	8,782	272	206	305	1,453	15,204
Additions	1	53	5	-	-	86	145
Transfers	13	46	-	1	-	(60)	-
Disposals	-	(39)	(1)	-	-	(3)	(43)
Effect of translation to presentation currency	352	767	26	18	30	143	1,336
At 31 March 2012	4,552	9,609	302	225	335	1,619	16,642
<i>Depreciation</i>							
At 1 January 2012	(765)	(2,419)	(119)	(71)	(38)	-	(3,412)
Charge for the period	(41)	(186)	(7)	(4)	(5)	-	(243)
Disposals	-	24	-	-	-	-	24
Effect of translation to presentation currency	(75)	(234)	(11)	(6)	(5)	-	(331)
At 31 March 2012	(881)	(2,815)	(137)	(81)	(48)	-	(3,962)
<i>Carrying amount</i>							
At January 2012	3,421	6,363	153	135	267	1,453	11,792
At 31 March 2012	3,671	6,794	165	144	287	1,619	12,680

During the three months ended 31 March 2012 the Group capitalized borrowing costs of USD 3 million (31 March 2011: USD 13 million).

At 31 March 2012 and 31 December 2011, property, plant and equipment with carrying amounts of USD 1,495 million and USD 1,520 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 10 and 11).

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

Capital commitments are disclosed in Note 13.

8. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	<u>31 March 2012</u>	<u>31 December 2011</u>
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	940	675
Unlisted securities	9	9
Loans and receivables, at amortized cost		
Promissory notes receivable, bearing interest of 2.8% per annum	101	99
Long-term loans, bearing interest of 5.5% per annum, repayable in 2014	25	2
Total non-current	<u>1,075</u>	<u>785</u>
Current		
Held-to-maturity investments, at amortized cost		
Promissory notes receivable	1	1
Loans and receivables, at amortized cost		
Short-term loans	3	-
Financial assets, at fair value through profit or loss		
Trading equity securities	48	41
Trading debt securities	2	1
Share in mutual investment fund	4	4
Total current	<u>58</u>	<u>47</u>

Non-current listed equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and is unable to exercise significant influence. At 31 March 2012 and 31 December 2011, the revaluation reserve arising from unrealized holding gains on these securities was USD 779 million and USD 539 million, respectively, net of related income tax effect of USD nil million.

Trading equity securities are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on trade prices obtained from investment brokers.

Trading debt securities are liquid publicly traded bonds of Russian companies. They are reflected at period-end market value based on trade prices obtained from investment brokers.

Net gain on revaluation and sale of trading securities for the three months ended 31 March 2012 and 2011 was USD 3 million and USD 4 million, respectively. These results are included in other operating income in the unaudited condensed consolidated interim statement of comprehensive income.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

9. CASH AND CASH EQUIVALENTS

	<u>31 March 2012</u>	<u>31 December 2011</u>
Cash in banks, USD	62	19
Cash in banks, RUB	27	35
Cash in banks, EUR	20	22
Cash in banks, CHF	2	4
Bank deposits, USD	43	103
Bank deposits, EUR	38	83
Bank deposits, TRY	5	11
Bank deposits, RUB	-	147
Total	<u>197</u>	<u>424</u>

10. LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at		31 March 2012	31 December 2011
		31 March 2012	31 December 2011		
Unsecured listed bonds, RUB	Fixed	8%	8%	901	679
Secured loans, USD	Floating	6%	5%	329	362
Secured loans, EUR	Fixed	6%	5%	302	337
Unsecured loans, USD	Floating	2%	2%	595	639
Unsecured loans, USD	Fixed	5%	5%	244	241
Unsecured loans, RUB	Fixed	7%	7%	318	416
Unsecured loans, EUR	Fixed	4%	4%	7	7
Unsecured loans, EUR	Floating	2%	3%	363	386
Total				<u>3,059</u>	<u>3,067</u>

The information provided below refers to total long-term borrowings, including current portion, identified in Note 11.

Bonds

In February 2012, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 167 million at the date of issuance), bearing a semi-annual coupon rate of 8.19 % per annum, repayable in February 2015. A 1.5 year offer is provided for the issue.

In March 2011, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 175 million at the date of issuance), bearing a semi-annual coupon rate of 7.65 % per annum, repayable in February 2014.

Loans

The Group has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 March 2012 and 31 December 2011, the total unused element of all credit facilities was USD 887 million and USD 426 million, respectively.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

At 31 March 2012 and 31 December 2011, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 1,475 million and USD 1,500 million, respectively, and shares in a subsidiary of USD 801 million and USD 730 million, respectively.

Debt repayment schedule

Year ended 31 March,	
2013 (presented as current portion of long-term borrowings, Note 11)	849
2014	1,605
2015	623
2016	300
2017 and thereafter	531
Total	3,908

11. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at		31 March 2012	31 December 2011
		31 March 2012	31 December 2011		
Short-term borrowings:					
Secured loans, USD	Floating	3%	2%	79	145
Secured loans, EUR	Floating	2%	3%	44	49
Unsecured loans, USD	Floating	3%	3%	193	193
Unsecured loans, RUB	Fixed	10%	-	2	-
Unsecured spot loan, TRY		-	-	-	1
				<u>318</u>	<u>388</u>
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	8%	7%	244	367
Secured loans, USD	Floating	5%	5%	143	109
Secured loans, EUR	Fixed	6%	5%	68	73
Unsecured loans, USD	Floating	2%	2%	171	172
Unsecured loans, EUR	Floating	2%	3%	86	85
Unsecured loans, RUB	Fixed	7%	7%	24	31
Unsecured loans, USD	Fixed	5%	5%	101	91
Unsecured loans, EUR	Fixed	4%	4%	3	3
Secured letter of credit, EUR	Floating	2%	3%	9	9
				<u>849</u>	<u>940</u>
Total				<u>1,167</u>	<u>1,328</u>

The weighted average interest rates of short-term borrowings at 31 March 2012 and 31 December 2011 were as follows:

	31 March 2012	31 December 2011
RUB-denominated	8%	7%
USD-denominated	3%	3%
EUR-denominated	4%	4%

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

At 31 March 2012 and 31 December 2011, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 20 million and USD 20 million, respectively.

Short-term borrowings and current portion of long-term borrowings are repayable as follows:

	<u>31 March 2012</u>	<u>31 December 2011</u>
Due in:		
1 month	22	169
1-3 months	220	396
3 months to 1 year	<u>925</u>	<u>763</u>
Total	<u>1,167</u>	<u>1,328</u>

12. RELATED PARTIES

Transactions and balances outstanding with related parties

Transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

Details of transactions with and balances between the Group and related parties at 31 March 2012 and 31 December 2011 and for the three months ended 31 March 2012 and 2011 are disclosed below.

a) Transactions with associates of the Group

	<u>Three months ended 31 March</u>	
	<u>2012</u>	<u>2011</u>
<i>Purchases</i>	52	48
	<u>31 March 2012</u>	<u>31 December 2011</u>
Balances outstanding		
<i>Accounts receivable</i>	2	4
<i>Accounts payable</i>	9	7

b) Transactions with entities under common control

	<u>Three months ended 31 March</u>	
	<u>2012</u>	<u>2011</u>
<i>Finance income</i>	1	-
<i>Loans provided</i>	25	-
	<u>31 March 2012</u>	<u>31 December 2011</u>
Balances outstanding		

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

b) Transactions with entities under common control

	Three months ended 31 March	
	2012	2011
<i>Finance income</i>	1	-
<i>Loans provided</i>	25	-
<i>Promissory notes receivable</i>	101	99
<i>Loans provided</i>	25	-
<i>Interest receivable</i>	2	1

c) Transactions with other related parties

	Three months ended 31 March	
	2012	2011
<i>Purchases</i>	49	43
<i>Bank charges</i>	1	3
<i>Bank loans and overdrafts obtained</i>	2	1
<i>Bank loans and overdrafts repaid</i>	-	2
Balances outstanding	31 March 2012	31 December 2011
<i>Cash and cash equivalents</i>	71	36
<i>Loans provided</i>	3	3
<i>Loans and overdraft facilities</i>	2	-
<i>Accounts payable</i>	6	5

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the three months ended 31 March 2012 and 2011, key management personnel received as compensation USD 5 million and USD 5 million, respectively.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012
(In millions of U.S. Dollars, unless otherwise stated)**

13. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2012, the Group executed non-binding purchase agreements of approximately USD 611 million to acquire property, plant and equipment (31 December 2011 – USD 847 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

Contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these unaudited condensed consolidated interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The unaudited condensed consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2012**
(In millions of U.S. Dollars, unless otherwise stated)

14. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 2 April 2012, MMK was notified that a minority shareholder of OJSC MMK brought an action to the Arbitration Court of Chelyabinsk Region on 29 March 2012 challenging the legitimacy of the OJSC MMK Board of Directors' resolutions with respect to the acquisition of 100% stake in Flinders Mines Limited. As a result, on 30 March 2012, the Arbitration Court of Chelyabinsk Region issued an injunctive relief order restraining MMK from implementing MMK Board of Directors' resolutions with respect to the acquisition of 100% stake in Flinders.

On 24 May 2012, the Arbitration Court of Chelyabinsk Region held a hearing on the merits with respect to the above action brought in by MMK's minority shareholder. During the hearing, the plaintiff submitted the documents (as she had been earlier obliged by the court) that required additional examination. Therefore the Court had ruled to postpone the hearing on the merits until 2 July 2012. At that time MMK was seeking discharge of the injunctive relief order at the Appellate court.

On June 6, 2012 hearings were held at Arbitration Appellate Court Number 18 (the City of Chelyabinsk) to consider appeals brought by MMK and Flinders Mines Limited in order to discharge the injunction relief order issued by the Arbitration Court of the Chelyabinsk Region. On the same day the Appellate Court refused to satisfy MMK's appeal, leaving the injunction relief order in place, and dismissed the appeal brought by Flinders Mining Limited.

15. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements for the three months ended 31 March 2012 were approved by the Group's management and authorized for issue on 13 June 2012.