

**Open Joint Stock  
Company Magnitogorsk  
Iron & Steel Works and  
Subsidiaries**

**Unaudited Condensed Consolidated Interim  
Financial Statements**

For the Three Months Ended 31 March 2011

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

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**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 2011**

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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 2011, 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".

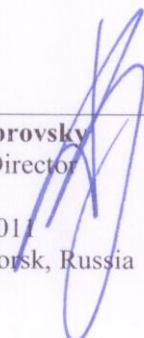
In preparing the unaudited condensed consolidated interim financial statements, management is responsible for:

- 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.

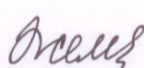
Management is also responsible for:

- 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 2011 were approved on 20 June 2011 by:

  
\_\_\_\_\_  
**B. A. Dubrovsky**  
General Director

20 June 2011  
Magnitogorsk, Russia

  
\_\_\_\_\_  
**M. A. Zhemchueva**  
Chief Accountant



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## **Independent Auditors' Report on review of Interim Financial Information**

To the shareholders of OJSC Magnitogorsk Iron & Steel Works:

### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as at 31 March 2011, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three month period then ended (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

### *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of 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 consolidated interim condensed financial information as at 31 March 2011 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*.

### *Other matter*

The consolidated statement of financial position as at 31 December 2010 was audited, and condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period ended 31 March 2010 were reviewed by another auditor who issued unmodified reports dated 31 March 2011 and 9 June 2010 on these statements.

*ZAO KPMG*

ZAO KPMG  
20 June 2011

**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 2011  
(In millions of U.S. Dollars, except per share data)**

	Notes	Three months ended 31 March	
		2011	2010
REVENUE	5	2,216	1,652
COST OF SALES		(1,775)	(1,229)
GROSS PROFIT		<b>441</b>	<b>423</b>
General and administrative expenses		(144)	(125)
Selling and distribution expenses		(129)	(138)
Other operating expenses, net		(13)	(15)
OPERATING PROFIT		<b>155</b>	<b>145</b>
Share of results of associates		5	4
Finance income		4	4
Finance costs		(20)	(31)
Foreign exchange gain, net		74	40
Change in net assets attributable to non-controlling interest		4	-
Other income		3	1
Other expenses		(57)	(42)
PROFIT BEFORE INCOME TAX		<b>168</b>	<b>121</b>
INCOME TAX		(34)	(27)
PROFIT FOR THE PERIOD		<b>134</b>	<b>94</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Net change in fair value of available-for-sale investments		(63)	52
Translation of foreign operations		66	18
Effect of translation to presentation currency		758	313
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<b>761</b>	<b>383</b>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<b>895</b>	<b>477</b>
Profit/(loss) attributable to:			
Shareholders of the Parent Company		144	93
Non-controlling interests		(10)	1
		<b>134</b>	<b>94</b>
Total comprehensive income attributable to:			
Shareholders of the Parent Company		839	456
Non-controlling interests		56	21
		<b>895</b>	<b>477</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>			
(U.S. Dollars)		0.01	0.01
Weighted average number of ordinary shares outstanding (in thousands)		11,007,613	11,102,421

The notes on pages 8 to 18 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 FINANCIAL POSITION  
AT 31 MARCH 2011 (IN MILLIONS OF U.S. DOLLARS)**

	Notes	31 March 2011	31 December 2010
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	7	13,249	12,226
Goodwill		310	290
Other intangible assets		34	34
Investments in securities and other financial assets	8	1,055	1,051
Investments in associates		35	29
Deferred tax assets		110	106
Other non-current assets		20	17
Total non-current assets		<u>14,813</u>	<u>13,753</u>
<b>CURRENT ASSETS:</b>			
Inventories		1,488	1,236
Trade and other receivables		866	791
Investments in securities and other financial assets	8	201	193
Income tax receivable		16	37
Value added tax recoverable		238	213
Cash and cash equivalents	9	460	515
Total current assets		<u>3,269</u>	<u>2,985</u>
<b>TOTAL ASSETS</b>		<b><u>18,082</u></b>	<b><u>16,738</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Share capital		386	386
Treasury shares		(170)	(176)
Share premium		1,108	1,109
Investments revaluation reserve		617	680
Translation reserve		(1,536)	(2,294)
Retained earnings		10,548	10,552
Equity attributable to shareholders of the Parent Company		10,953	10,257
Non-controlling interests		176	429
Total equity		<u>11,129</u>	<u>10,686</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings	10	2,447	2,454
Obligations under finance leases		6	7
Retirement benefit obligations		25	25
Site restoration provision		20	18
Deferred tax liabilities		1,530	1,464
Total non-current liabilities		<u>4,028</u>	<u>3,968</u>
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings and current portion of long-term borrowings	11	1,488	1,074
Current portion of obligations under finance leases		10	13
Current portion of retirement benefit obligations		3	3
Trade and other payables		1,403	971
Net assets attributable to minority participants		21	23
Total current liabilities		<u>2,925</u>	<u>2,084</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>18,082</u></b>	<b><u>16,738</u></b>

The notes on pages 8 to 18 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 CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2011**  
*(In millions of U.S. Dollars)*

	Attributable to shareholders of the Parent Company									
	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity	
<b>BALANCE AT 1 JANUARY 2010</b>	386	(67)	1,103	341	(2,230)	10,424	9,957	368	10,325	
Profit for the period	-	-	-	-	-	93	93	1	94	
Other comprehensive income for the period, net of tax	-	-	-	52	311	-	363	20	383	
Total comprehensive income for the year	-	-	-	52	311	93	456	21	477	
Purchase of treasury shares	-	(1)	-	-	-	-	(1)	-	(1)	
Issuance of ordinary shares from treasury shares	-	1	-	-	-	-	1	-	1	
Decrease in non-controlling interests due to increase of Group's share in subsidiaries	-	-	-	-	-	2	2	(2)	-	
<b>BALANCE AT 31 MARCH 2010</b>	<b>386</b>	<b>(67)</b>	<b>1,103</b>	<b>393</b>	<b>(1,919)</b>	<b>10,519</b>	<b>10,415</b>	<b>387</b>	<b>10,802</b>	
<b>BALANCE AT 1 JANUARY 2011</b>	<b>386</b>	<b>(176)</b>	<b>1,109</b>	<b>680</b>	<b>(2,294)</b>	<b>10,552</b>	<b>10,257</b>	<b>429</b>	<b>10,686</b>	
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)	-	-	-	-	-	(147)	(147)	(338)	(485)	
<b>BALANCE AT 31 MARCH 2011</b>	<b>386</b>	<b>(170)</b>	<b>1,108</b>	<b>617</b>	<b>(1,536)</b>	<b>10,548</b>	<b>10,953</b>	<b>176</b>	<b>11,129</b>	

The notes on pages 8 to 18 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 2011**

*(In millions of U.S. Dollars)*

	Three months ended 31 March	
	2011	2010
OPERATING ACTIVITIES:		
Profit for the period	134	94
Adjustments to profit for the period:		
Income tax	34	27
Depreciation and amortization	220	200
Finance costs	20	31
Loss on disposal of property, plant and equipment	23	25
Change in allowance for doubtful accounts receivable	4	11
Gain on revaluation and sale of trading securities	(4)	(20)
Inventory allowance and impairment	5	(9)
Finance income	(4)	(4)
Foreign exchange gain, net	(74)	(40)
Share of results of associates	(5)	(4)
Change in net assets attributable to non-controlling interest	(4)	-
	349	311
Movements in working capital		
Increase in trade and other receivables	(22)	(116)
Increase in value added tax recoverable	(9)	(10)
(Increase)/decrease in inventories	(164)	9
Decrease in investments classified as trading securities	2	2
Increase in trade and other payables	110	153
	266	349
Cash generated from operations	266	349
Interest paid	(38)	(13)
Income tax paid	(30)	(15)
	198	321
Net cash from operating activities	198	321
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(381)	(620)
Purchase of intangible assets	(1)	(2)
Proceeds from sale of property, plant and equipment	1	3
Acquisition of non controlling interest	(243)	-
Interest received	4	4
Purchase of securities and other financial assets	(9)	-
Proceeds from sale of securities and other financial assets	7	2
	(622)	(613)
Net cash used in investing activities	(622)	(613)

The notes on pages 8 to 18 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 2011 (CONTINUED)**

*(In millions of U.S. Dollars)*

	<b>Three months ended 31 March</b>	
	<b>2011</b>	<b>2010</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	668	906
Repayments of borrowings	(382)	(615)
Purchase of treasury shares	(9)	(1)
Proceeds from issuance of ordinary shares from treasury shares	14	1
Principal repayments of obligations under finance leases	(6)	(9)
Proceeds from capital transactions of subsidiaries	28	-
Net decrease in bank overdrafts	(1)	-
Net cash generated from financing activities	<u>312</u>	<u>282</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(112)</b>	<b>(10)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>515</b>	<b>165</b>
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	<u>57</u>	<u>18</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b><u>460</u></b>	<b><u>173</u></b>

The notes on pages 8 to 18 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 2011 *(In millions of U.S. Dollars, unless otherwise stated)*

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### 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.

The ultimate controlling party 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 2011 did not change from 31 December 2010.

### 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 2011 have been prepared in accordance with IAS 34 "Interim financial reporting" ("IAS 34"). The statement of financial position at 31 December 2010 has been derived from the statement of financial position included in the Group's financial statements at 31 December 2010. These 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 2010, 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 condensed consolidated interim financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2010.

#### Estimates

The preparation of 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 2010.

#### Basis of preparation

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis except for the revaluation of property, plant and equipment in accordance with IAS 16 "Property, plant and equipment" and market-to-market valuation of certain financial instruments which are reported in accordance with IAS 39 "Financial instruments: recognition and measurement".

**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 2011  
(In millions of U.S. Dollars, unless otherwise stated)**

**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**

In March 2011 the Group entered into an agreement to acquire a non-controlling interest of 50% minus 1 share of MMK Atakas Metalurji for a consideration of USD 485 million, increasing the Group's ownership interest to 100%. The closing of the transaction is expected not later than 1 November 2011. As at 31 March 2011, the Group has paid USD 242.5 million to the seller.

**5. REVENUE**

By product	Three months ended 31 March	
	2011	2010
Rolled steel	1,409	1,079
Galvanized steel	139	82
Assorted rolled products	166	77
Coal	39	77
Tin plated steel	51	49
Galvanized steel with polymeric coating	66	42
Formed section	56	31
Coking production	46	28
Hardware products	40	24
Wire, sling, bracing	68	20
Band	26	17
Tubes	13	8
Scrap	9	8
Slabs	6	-
Others	82	110
<b>Total</b>	<b>2,216</b>	<b>1,652</b>

By customer destination	Three months ended 31 March	
	2011	2010
Russian Federation and the CIS	77%	67%
Iran	7%	11%
Turkey	4%	5%
Italy	3%	4%
India	-	1%
Others (countries each representing less than 2% of total net revenue)	9%	12%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**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 in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

**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 2011  
(In millions of U.S. Dollars, unless otherwise stated)**

The reports used by the chief operating decision maker contain the following segments:

- *Steel segment*, 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, the Russian Federation; and
- *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, the Russian Federation.

Prior to acquisition of controlling interest in Belon Group in October 2010 the Group operated in a single business segment, which was composed of the manufacturing of semi-finished and finished steel products.

The profitability of the two operating segments is primarily measured 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, and gain on revaluation of investment in associate upon acquisition of majority ownership. Since this term is not a standard measure in IFRS the Group’s definition of EBITDA may differ from that of other companies.

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

	Three months ended 31 March 2011			
	Steel	Coal mining	Eliminations	Total
<b>Revenue</b>				
Sales to external customers	2,178	38	-	2,216
Inter-segment sales	-	120	(120)	-
<b>Total revenue</b>	<b>2,178</b>	<b>158</b>	<b>(120)</b>	<b>2,216</b>
<b>Segment EBITDA</b>	<b>333</b>	<b>70</b>	<b>-</b>	<b>403</b>
Depreciation and amortisation	(202)	(18)	-	(220)
Loss on disposal of property, plant and equipment	(20)	(3)	-	(23)
Share of results of associates	(5)	-	-	(5)
<b>Operating profit per IFRS financial statements</b>	<b>106</b>	<b>49</b>	<b>-</b>	<b>155</b>

At 31 March 2011 and 31 December 2010, the segments’ total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 March 2011			
	Steel	Coal mining	Eliminations	Total
Total assets	17,583	1,023	(524)	18,082
Total liabilities	6,650	415	(112)	6,923
	31 December 2010			
	Steel	Coal mining	Eliminations	Total
Total assets	16,256	1,008	(526)	16,738
Total liabilities	5,720	473	(141)	6,052

**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 2011  
(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>							
<b>At 1 January 2010</b>	<b>3,333</b>	<b>7,406</b>	<b>248</b>	<b>173</b>	<b>260</b>	<b>1,899</b>	<b>13,319</b>
Additions	11	61	2	3	2	508	587
Transfers	188	227	6	15	-	(436)	-
Disposals	(10)	(18)	(2)	(1)	-	(2)	(33)
Effect of translation to presentation currency	103	229	7	4	9	57	409
<b>At 31 March 2010</b>	<b>3,625</b>	<b>7,905</b>	<b>261</b>	<b>194</b>	<b>271</b>	<b>2,026</b>	<b>14,282</b>
<i>Depreciation</i>							
<b>At 1 January 2010</b>	<b>(521)</b>	<b>(1,388)</b>	<b>(76)</b>	<b>(39)</b>	<b>(3)</b>	-	<b>(2,027)</b>
Charge for the period	(41)	(145)	(7)	(4)	-	-	(197)
Disposals	-	4	1	-	-	-	5
Effect of translation to presentation currency	(16)	(43)	(3)	(3)	(1)	-	(66)
<b>At 31 March 2010</b>	<b>(578)</b>	<b>(1,572)</b>	<b>(85)</b>	<b>(46)</b>	<b>(4)</b>	-	<b>(2,285)</b>
<i>Carrying amount</i>							
<b>At 31 March 2010</b>	<b>3,047</b>	<b>6,333</b>	<b>176</b>	<b>148</b>	<b>267</b>	<b>2,026</b>	<b>11,997</b>
<i>Gross book value</i>							
<b>At 1 January 2011</b>	<b>3,775</b>	<b>8,121</b>	<b>266</b>	<b>206</b>	<b>308</b>	<b>2,309</b>	<b>14,985</b>
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
<b>At 31 March 2011</b>	<b>4,088</b>	<b>8,800</b>	<b>290</b>	<b>226</b>	<b>331</b>	<b>2,681</b>	<b>16,416</b>
<i>Depreciation</i>							
<b>At 1 January 2011</b>	<b>(672)</b>	<b>(1,909)</b>	<b>(97)</b>	<b>(56)</b>	<b>(25)</b>	-	<b>(2,759)</b>
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)
<b>At 31 March 2011</b>	<b>(753)</b>	<b>(2,207)</b>	<b>(111)</b>	<b>(64)</b>	<b>(32)</b>	-	<b>(3,167)</b>
<i>Carrying amount</i>							
<b>At 31 March 2011</b>	<b>3,335</b>	<b>6,593</b>	<b>179</b>	<b>162</b>	<b>299</b>	<b>2,681</b>	<b>13,249</b>

As at 31 March 2011 construction-in-progress includes capitalised expenditure relating to the implementation of large investment projects including the construction of a continuous-casting plant, a new metallurgical plant in Turkey, and a cold rolling mill intended for production of high quality cold rolled metal products.

During the three months ended 31 March 2011 the Group capitalized borrowing costs of USD 13 million (31 March 2010: 4 USD million).

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At 31 March 2011 and 31 December 2010, property, plant and equipment with carrying amounts of USD 1,593 million and USD 1,400 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 10 and 11).

Capital commitments are disclosed in Note 13.

**8. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS**

	<u>31 March 2011</u>	<u>31 December 2010</u>
<b>Non-current</b>		
<b>Available-for-sale investments, at fair value</b>		
Listed equity securities	1027	1,034
Unlisted securities	10	10
<b>Loans and receivables, at amortized cost</b>		
Long-term loans	<u>18</u>	<u>7</u>
<b>Total non-current</b>	<u><u>1,055</u></u>	<u><u>1,051</u></u>
<b>Current</b>		
<b>Held-to-maturity investments, at amortized cost</b>		
Promissory notes receivable	1	1
<b>Loans and receivables, at amortized cost</b>		
Short-term loans	33	39
<b>Financial assets, at fair value through profit or loss</b>		
Trading equity securities	149	128
Trading debt securities	14	20
Share in mutual investment fund	<u>4</u>	<u>5</u>
<b>Total current</b>	<u><u>201</u></u>	<u><u>193</u></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 2011 and 31 December 2010, the revaluation reserve arising from unrealized holding gains on these securities was USD 617 million and USD 680 million, respectively, net of related income tax effect of USD 154 million and USD 170 million, respectively.

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 2011 and 2010 was USD 4 million and USD 20 million, respectively. These results are included in other operating income in the unaudited condensed consolidated interim statement of comprehensive income.

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**9. CASH AND CASH EQUIVALENTS**

	<u>31 March 2011</u>	<u>31 December 2010</u>
Cash in banks, USD	83	36
Cash in banks, RUB	231	246
Cash in banks, EUR	54	40
Cash in banks, CHF	4	4
Cash in banks, TRY	1	-
Bank deposits, USD	41	8
Bank deposits, EUR	44	1
Bank deposits, TRY	2	7
Bank deposits, RUB	-	166
Bank promissory notes, RUB	-	7
<b>Total</b>	<b><u>460</u></b>	<b><u>515</u></b>

**10. LONG-TERM BORROWINGS**

	Type of interest rate	Annual interest rate, actual at		31 March 2011	31 December 2010
		31 March 2011	31 December 2010		
Unsecured listed bonds, RUB	Fixed	8%	8%	599	611
Secured loans, USD	Floating	6%	6%	380	424
Secured loans, EUR	Fixed	7%	6%	383	367
Unsecured loans, USD	Floating	1%	1%	382	406
Unsecured loans, USD	Fixed	5%	5%	303	280
Unsecured loans, EUR	Fixed	4%	4%	10	10
Unsecured loans, EUR	Floating	3%	3%	380	346
Secured letter of credit, EUR	Floating	3%	2%	10	10
<b>Total</b>				<b><u>2,447</u></b>	<b><u>2,454</u></b>

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

**Bonds**

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 2011 and 31 December 2010, the total unused element of all credit facilities was USD 1,351 million and USD 993 million, respectively.

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At 31 March 2011 and 31 December 2010, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 1,591 million and USD 1,399 million, respectively, and shares in a subsidiary of USD 327 million and USD 279 million, respectively.

**Debt repayment schedule**

Year ended 31 March,	
2011 (presented as current portion of long-term borrowings, Note 11)	1,236
2012	594
2013	763
2014	312
2015 and thereafter	778
<b>Total</b>	<b>3,683</b>

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

	Type of interest rate	Annual interest rate, actual at		31 March 2011	31 December 2010
		31 March 2011	31 December 2010		
<b>Short-term borrowings:</b>					
Secured loans, USD	Floating	2%	2%	148	150
Secured loans, EUR	Floating	1%	1%	104	20
				252	170
<b>Current portion of long-term borrowings:</b>					
Unsecured listed bonds, RUB	Fixed	9%	10%	644	372
Secured loans, USD	Floating	6%	6%	150	117
Secured loans, EUR	Fixed	7%	6%	48	18
Unsecured loans, USD	Floating	2%	2%	223	262
Unsecured loans, EUR	Floating	3%	3%	79	33
Unsecured loans, USD	Fixed	5%	5%	78	86
Unsecured loans, EUR	Fixed	4%	4%	3	3
Secured letter of credit, USD	Floating	-	1%	-	1
Secured letter of credit, EUR	Floating	2%	2%	11	12
				1,236	904
<b>Total</b>				<b>1,488</b>	<b>1,074</b>

The weighted average interest rates of short-term borrowings at 31 March 2011 and 31 December 2010 were as follows:

	31 March 2011	31 December 2010
RUB-denominated	9%	10%
USD-denominated	3%	3%
EUR-denominated	3%	3%



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At 31 March 2011 and 31 December 2010, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 2 million and USD 1 million, respectively, inventory of USD 2 million and USD 2 million, respectively, and certain future revenue streams.

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

	<u>31 March 2011</u>	<u>31 December 2010</u>
Due in:		
1 month	122	63
1-3 months	287	225
3 months to 1 year	<u>1,079</u>	<u>786</u>
<b>Total</b>	<u><b>1,488</b></u>	<u><b>1,074</b></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 Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

The following companies are considered to be related parties to the Group:

**LLC MEK**

LLC MEK, a company affiliated with the Group's controlling shareholders, sells electric power to the Group.

**OJSC CUB**

The Group holds certain deposits and current accounts in OJSC CUB, a commercial bank affiliated with the Group's management. The Group receives financing from OJSC CUB in the form of loans for the Group's operating activities on arm's length basis.

**LLC MMK Trans**

LLC MMK Trans, the Group's affiliate, provides transportation and forwarding services to the Group.

**CJSC Kazankovskaya Mine**

CJSC Kazankovskaya Mine, the Group's affiliate, holds a license to explore and mine coal deposits located in Kemerovo region, Russian Federation. The Group provides loans to CJSC Kazankovskaya Mine.

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Details of transactions with and balances between the Group and related parties at 31 March 2011 and 31 December 2010 and for the three months ended 31 March 2011 and 2010 are disclosed below.

Transactions	Three months ended 31 March	
	2011	2010
<b>Revenue</b>		
LLC MEK	-	1
<b>Purchases</b>		
LLC MEK	43	35
LLC MMK Trans	48	18
Total	91	53
<b>Bank charges</b>		
OJSC CUB	3	1
<b>Bank loans and overdrafts obtained</b>		
OJSC CUB	1	1
<b>Bank loans and overdrafts repaid</b>		
OJSC CUB	2	3
	<b>31 March</b>	<b>31 December</b>
	<b>2011</b>	<b>2010</b>
<b>Balances</b>		
<b>Cash and cash equivalents</b>		
OJSC CUB	67	70
<b>Loans and overdraft facilities</b>		
OJSC CUB	1	-
<b>Accounts receivable</b>		
LLC MMK Trans	5	8
<b>Accounts payable</b>		
LLC MEK	14	4
LLC MMK Trans	18	6
Total	32	10

All amounts outstanding are unsecured and expected to be settled in cash.

**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 2011 and 2010, key management personnel received as compensation USD 5 million and USD 3 million, respectively.

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**13. COMMITMENTS AND CONTINGENCIES**

**Capital commitments**

At 31 March 2011, the Group executed non-binding purchase agreements of approximately USD 1,190 million to acquire property, plant and equipment (31 December 2010 – USD 1,280 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.

**Issued guarantees**

At 31 March 2011 and 31 December 2010, amounts related to financial guarantees given by the Group to third parties were as follows:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Non-current	<u>3</u>	<u>3</u>
<b>Total</b>	<u><u>3</u></u>	<u><u>3</u></u>

**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 consolidated 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 consolidated 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.

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**14. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION**

At 20 May 2011, the Parent Company declared a final dividend of RUB 0.33 (USD 0.01) per common share in respect of the year ended 31 December 2010 representing a total dividend of USD 132 million. Of this total, USD 2 million was attributable to Group entities.

At 18 May 2011, the Company sold its share in OOO Resurs-Ugol for USD 7 million.

**15. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements for the three months ended 31 March 2011 were approved by the Group's management and authorized for issue on 20 June 2011.