Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

For the Three Months Ended 31 March 2013

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

TABLE OF CONTENTS

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 2013

The following statement, which should be read in conjunction with the auditors' responsibilities stated in the auditors' report on review of 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 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 2013, 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 2013 were approved on 5 June 2013 by:

Российская Федерация · Главная бухгалтерия · «ОАО ММК» · Для бухгалтерских документов · Открытое акционерное общество Магнитогорский металлургический комбинат

P.V. Shilyaev	**M. A. Zhemchueva**
Acting General Director	Chief Accountant

5 June 2013
Magnitogorsk, Russia

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders

OJSC Magnitogorsk Iron & Steel Works

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of OJSC Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (the "Group") as at 31 March 2013, and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim financial statements (the "condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on these condensed consolidated interim financial statements 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 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 statements as at 31 March 2013 and for the three - month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

Shvetsov A.V.,
Director, power of attorney dated 1 October 2010 No. 55/10

ZAO KPMG
5 June 2013
Moscow, Russian Federation

Entity: Open Joint Stock Company Magnitogorsk Iron and Steel Works

Registered by Administration of Magnitogorsk city, Chelyabinsk region on 17 October 1992, Registration No. 186 series GA № 002.

Entered in the Unified State Register of Legal Entities on 1 July 2002 by Department of Ministry of Taxes and Duties on Orjonikidze district of Magnitogorsk, Chelyabinsk region, Registration No. 1027402166835, Certificate series 74 No. 001284258.

93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000

Practitioner: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

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 2013
(In millions of U.S. Dollars, except per share data)

		Three months ended 31 March	
	Notes	**2013**	**2012**
REVENUE	4	2,283	2,425
COST OF SALES		(1,968)	(2,108)
GROSS PROFIT		**315**	**317**
General and administrative expenses		(133)	(136)
Selling and distribution expenses		(172)	(137)
Other operating expenses, net		(9)	(11)
OPERATING PROFIT		**1**	**33**
Share of results of associates		1	2
Gain on disposal of associates	6	125	-
Finance income		3	4
Finance costs		(49)	(61)
Impairment losses on non-current assets	8	(50)	-
Foreign exchange gain, net		4	89
Change in net assets attributable to non-controlling interest		1	1
Other income		1	4
Other expenses		(44)	(51)
(LOSS)/PROFIT BEFORE INCOME TAX		**(7)**	**21**
INCOME TAX	7	26	(7)
PROFIT FOR THE PERIOD		**19**	**14**
OTHER COMPREHENSIVE (LOSSES)/INCOME			
Items, that will be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale investments		(89)	240
Translation of foreign operations		13	(121)
Items, that will not be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		(228)	963
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(304)**	**1,082**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(285)**	**1,096**
Profit attributable to:			
Shareholders of the Parent Company		29	15
Non-controlling interests		(10)	(1)
		19	**14**
Total comprehensive (loss)/income attributable to:			
Shareholders of the Parent Company		(275)	1,097
Non-controlling interests		(10)	(1)
		(285)	**1,096**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.003	0.001
Weighted average number of ordinary shares outstanding (in thousands)		11,006,851	11,007,922

The notes on pages 8 to 22 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 2013

(In millions of U.S. Dollars)

	Notes	31 March 2013	31 December 2012
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	11,376	11,831
Goodwill		284	290
Other intangible assets		42	43
Investments in securities and other financial assets	9	757	870
Investments in associates		4	-
Deferred tax assets	7	160	152
Other non-current assets		19	7
Total non-current assets		12,642	13,193
CURRENT ASSETS:			
Inventories		1,364	1,674
Trade and other receivables		815	695
Investments in securities and other financial assets	9	55	62
Income tax receivable		56	90
Value added tax recoverable		197	200
Cash and cash equivalents	10	347	362
Assets classified as held for sale		16	16
Total current assets		2,850	3,099
TOTAL ASSETS		**15,492**	**16,292**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		386	386
Treasury shares		(172)	(175)
Share premium		1,105	1,108
Investments revaluation reserve		507	596
Translation reserve		(2,428)	(2,213)
Retained earnings		9,992	9,963
Equity attributable to shareholders of the Parent Company		9,390	9,665
Non-controlling interests		145	155
Total equity		9,535	9,820
NON-CURRENT LIABILITIES:			
Long-term borrowings	11	1,861	2,236
Retirement benefit obligations		29	32
Site restoration provision		51	51
Deferred tax liabilities	7	1,206	1,254
Total non-current liabilities		3,147	3,573
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	12	1,758	1,630
Current portion of obligations under finance leases		1	1
Current portion of retirement benefit obligations		4	4
Trade and other payables		1,044	1,260
Net assets attributable to minority participants		3	4
Total current liabilities		2,810	2,899
TOTAL EQUITY AND LIABILITIES		**15,492**	**16,292**

The notes on pages 8 to 22 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 2013
(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**
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**
BALANCE AT 1 JANUARY 2013	**386**	**(175)**	**1,108**	**596**	**(2,213)**	**9,963**	**9,665**	**155**	**9,820**
Profit for the period	-	-	-	-	-	29	**29**	(10)	**19**
Other comprehensive losses for the period, net of tax	-	-	-	(89)	(215)	-	**(304)**	-	**(304)**
Total comprehensive losses for the period	-	-	-	(89)	(215)	29	**(275)**	(10)	**(285)**
Purchase of treasury shares	-	(1)	-	-	-	-	**(1)**	-	**(1)**
Issuance of ordinary shares from treasury shares	-	4	(3)	-	-	-	**1**	-	**1**
BALANCE AT 31 MARCH 2013	**386**	**(172)**	**1,105**	**507**	**(2,428)**	**9,992**	**9,390**	**145**	**9,535**

The notes on pages 8 to 22 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 2013
(In millions of U.S. Dollars)

		Three months ended 31 March	
		2013	**2012**
OPERATING ACTIVITIES:			
Profit for the period		19	14
Adjustments to profit for the period:			
Income tax	7	(26)	7
Depreciation and amortization		246	242
Impairment losses on non-current assets	8	50	-
Impairment losses on investments in securities		2	-
Finance costs		49	61
Loss on disposal of property, plant and equipment		8	16
Change in allowance for doubtful accounts receivable		4	-
Loss/(Gain) on revaluation and sale of trading securities		2	(3)
Inventory allowance and impairment		2	1
Finance income		(3)	(4)
Foreign exchange gain, net		(4)	(89)
Share of results of associates		(1)	(2)
Gain on disposal of associates	6	(125)	-
Change in net assets attributable to non-controlling interest		(1)	(1)
		222	242
Movements in working capital			
Increase in trade and other receivables		(142)	(138)
Decrease in value added tax recoverable		1	56
Decrease in inventories		287	240
Decrease in investments classified as trading securities		2	-
Decrease in trade and other payables		(63)	(3)
Cash generated from operations		307	397
Interest paid		(66)	(68)
Income tax received/(paid)		30	(10)
Net cash from operating activities		271	319
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(131)	(230)
Purchase of intangible assets		-	(11)
Proceeds from sale of property, plant and equipment		-	4
Proceeds from sale of associates		122	-
Acquisition of associates		(1)	-
Interest received		5	3
Dividends received from associates		5	-
Loans provided to related party		-	(25)
Changes in letters of credit, net		(4)	(5)
Net cash used in investing activities		(4)	(264)

The notes on pages 8 to 22 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 2013 (CONTINUED)
(In millions of U.S. Dollars)

	Three months ended 31 March	
	2013	**2012**
FINANCING ACTIVITIES:		
Proceeds from borrowings	222	473
Repayments of borrowings	(396)	(803)
Purchase of treasury shares	(1)	-
Proceeds from issuance of ordinary shares from treasury shares	1	3
Principal repayments of obligations under finance leases	(1)	(3)
Dividends paid to:		
- equity holders of the Parent Company	(96)	-
Net cash used in financing activities	(271)	(330)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4)	(275)
CASH AND CASH EQUIVALENTS, beginning of period	362	424
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	(11)	48
CASH AND CASH EQUIVALENTS, end of period	**347**	**197**

The notes on pages 8 to 22 are an integral part of these unaudited condensed consolidated interim financial statements.

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. The Group is also engaged in coal mining and sale thereof.

As at 31 March 2013 the Parent Company's major shareholders were Mintha Holding Limited with a 37.1% ownership interest, Fulnek Enterprises Limited with a 41.0% ownership interest and Mordoraco Holdings Limited with a 7.7% ownership interest (31 December 2012: 37.1%, 41.0% and 7.7%, 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 2013 did not change from 31 December 2012.

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 2013 have been prepared in accordance with IAS 34 "Interim financial reporting" ("IAS 34"). The statement of financial position at 31 December 2012 has been derived from the statement of financial position included in the Group's financial statements at 31 December 2012. 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 2012, 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 2012, except for changes made due to adoption of new Standards and Interpretations becoming effective from 1 January 2013.

Changes in accounting policies

A number of new Standards and Interpretations become effective starting from 1 January 2013, including IAS 19 "Employee benefits", IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interest in other entities", IFRS 13 "Fair value measurement" and amendments to IAS 1 "Presentation of financial statements". However these new Standards and Interpretations will not have any significant impact on the Group's financial position or performance.

Estimates

The preparation of unaudited 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 millions of U.S. Dollars, unless otherwise stated)

In preparing these unaudited 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 2012.

Basis of preparation

The unaudited 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. REVENUE

	Three months ended 31 March	
By product	**2013**	**2012**
Hot rolled steel	1,098	1,230
Galvanized steel	223	205
Long steel products	221	221
Cold rolled steel	191	237
Galvanized steel with polymeric coating	168	136
Wire, sling, bracing	48	67
Hardware products	44	30
Tin plated steel	41	47
Coking production	39	39
Band	29	23
Formed section	24	48
Tubes	16	17
Coal	14	21
Scrap	8	9
Slabs	-	6
Others	119	89
Total	**2,283**	**2,425**

	Three months ended 31 March	
By customer destination	**2013**	**2012**
Russian Federation and the CIS	74%	70%
Turkey	10%	9%
Iran	4%	6%
Italy	4%	2%
Pakistan	2%	-
Vietnam	1%	3%
USA	-	2%
Others (countries each representing less than 2% of total revenue)	5%	8%
Total	**100%**	**100%**

5. 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.

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).

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.

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

The following table presents measures of segment results for the three months ended 31 March 2013 and 2012:

	Three months ended 31 March									
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations		Total	
Revenue										
Sales to external customers	2,118	2,201	151	203	14	21	-	-	2,283	2,425
Inter-segment sales	44	31	24	12	74	109	(142)	(152)	-	-
Total revenue	**2,162**	**2,232**	**175**	**215**	**88**	**130**	**(142)**	**(152)**	**2,283**	**2,425**
Segment EBITDA	**247**	**267**	**2**	**(18)**	**6**	**42**	**1**	**2**	**256**	**293**
Depreciation and amortisation	(205)	(197)	(26)	(28)	(15)	(17)	-	-	(246)	(242)
Loss on disposal of property, plant and equipment	(8)	(16)	-	-	-	-	-	-	(8)	(16)
Share of results of associates	(1)	(2)	-	-	-	-	-	-	(1)	(2)
Operating profit/(loss) per IFRS financial statements	**33**	**52**	**(24)**	**(46)**	**(9)**	**25**	**1**	**2**	**1**	**33**

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

At 31 March 2013 and 31 December 2012, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 March 2013				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	14,764	1,895	861	(2,028)	15,492
Total liabilities	4,944	1,424	315	(726)	5,957

	31 December 2012				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	15,343	1,935	931	(1,917)	16,292
Total liabilities	5,316	1,632	323	(799)	6,472

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

6. GAIN ON DISPOSAL OF ASSOCIATES

On 12 February 2013 the Group disposed of its investment in LLC MMK Trans for an initial consideration of USD 125 million. Final consideration is expected to be agreed by the end of June 2013 based on certain ratios derived from the approved financial statements of LLC MMK Trans for the year ended 31 December 2012 prepared in accordance with IFRS. Management of the Group does not anticipate any material adjustments to the initial consideration. As a part of this deal a five-year shipping contract between the parties to transport at least 70% of cargoes of the Group was signed.

7. INCOME TAX

The Group's provision for income taxes attributable to different tax jurisdictions for the years ended 31 March 2013 and 2012 was:

	Three months ended 31 March	
	2013	**2012**
Current provision for income tax	4	19
Adjustments recognised in current year relating to prior year current tax	(1)	(33)
Deferred income tax, net	(29)	21
Total income tax	**(26)**	**7**

Adjustments recognised in 2012 relating to prior year current tax relate to deductibility estimates which subsequently changed following submission of the Parent Company's income tax returns for that year. An offsetting deferred tax charge was also recorded as a result of these adjustments.

The corporate income tax rates in other countries where the Group has a taxable presence vary from 10% to 20%.

The provision for income taxes is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit before income tax. The items causing this difference are as follows:

	Three months ended 31 March	
	2013	**2012**
(Loss)/profit before income tax	(7)	21
Income tax provision computed at the Parent Company's statutory rate of 20%	(1)	4
Adjustments due to:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	1	-
Expenses not deductible and income not taxable for tax purposes	4	4
Effect of not taxable gain on disposal of associates	(25)	-
Adjustments of prior years deferred income tax expense	(3)	2
Other	(2)	(3)
Income tax	**(26)**	**7**

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

The movement in the Group's deferred tax position during the current and prior reporting period was as follows:

	31 March 2013	31 December 2012
Net deferred tax liability at the beginning of the period	**1,102**	**1,047**
Sale of subsidiaries	-	(3)
Deferred tax expense	(29)	(11)
Effect of translation to presentation currency	(27)	69
Net deferred tax liability at the end of the period	**1,046**	**1,102**

Deferred income tax assets and liabilities comprise differences arising between the tax and accounting bases of the following assets and liabilities:

	31 December	
	31 March 2013	31 December 2012
Accounts receivable	14	7
Unused tax losses	152	139
Investment tax credits	64	64
Accounts payable	40	40
Property, plant and equipment	6	6
Investments	6	7
Inventories	6	9
Assets classified as held for sale	2	2
Deferred income tax assets	290	274
Set off of deferred taxation	(130)	(122)
	160	152
Property, plant and equipment	(1,232)	(1,273)
Investments	(4)	(11)
Inventories	(44)	(47)
Accounts receivable	(41)	(30)
Loans	(15)	(15)
Deferred income tax liabilities	(1,336)	(1,376)
Set off of deferred taxation	130	122
	(1,206)	(1,254)
Net deferred income tax liabilities	**(1,046)**	**(1,102)**

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans-portation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
Gross book value							
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**
Depreciation							
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)**
Carrying amount							
At 01 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**
Gross book value							
At 1 January 2013	**4,673**	**9,835**	**298**	**253**	**323**	**893**	**16,275**
Additions	12	38	1	-	-	52	103
Transfers	13	19	1	1	-	(34)	-
Disposals	(1)	(38)	(1)	-	-	-	(40)
Reclassification to other non-current assets	(8)	-	-	-	-	-	(8)
Effect of translation to presentation currency	(92)	(205)	(6)	(5)	(8)	(21)	(337)
At 31 March 2013	**4,597**	**9,649**	**293**	**249**	**315**	**890**	**15,993**
Depreciation							
At 1 January 2013	**(936)**	**(3,190)**	**(148)**	**(92)**	**(76)**	**(2)**	**(4,444)**
Charge for the period	(38)	(194)	(7)	(7)	(5)	-	(251)
Disposals	-	25	1	-	-	-	26
Impairment loss	-	-	-	-	(50)	-	(50)
Effect of translation to presentation currency	22	71	4	3	2	-	102
At 31 March 2013	**(952)**	**(3,288)**	**(150)**	**(96)**	**(129)**	**(2)**	**(4,617)**
Carrying amount							
At 1 January 2013	**3,737**	**6,645**	**150**	**161**	**247**	**891**	**11,831**
At 31 March 2013	**3,645**	**6,361**	**143**	**153**	**186**	**888**	**11,376**

During the three months ended 31 March 2013 the Group capitalized borrowing costs of USD 1 million (31 March 2012: USD 3 million).

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

At 31 March 2013 and 31 December 2012, property, plant and equipment with carrying amounts of USD 1,362 million and USD 1,391 million, respectively, was pledged as security for certain long-term and short-term borrowings (Notes 11 and 12).

Management identified specific assets that are no longer in use and therefore are not considered to be recoverable amounting to USD 50 million and nil at 31 March 2013 and 31 December 2012, respectively. These assets have been impaired in full. No further impairment was identified by management.

Capital commitments are disclosed in Note 14.

9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 March 2013	31 December 2012
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	638	749
Unlisted securities	9	9
Loans and receivables, at amortized cost		
Promissory notes receivable, bearing interest of 2.8% -5.5% per annum	110	112
Total non-current	**757**	**870**
Current		
Held-to-maturity investments, at amortized cost		
Promissory notes receivable, bearing interest of 2.8% per annum	14	14
Financial assets, at fair value through profit or loss		
Trading equity securities	36	44
Trading debt securities	1	-
Share in mutual investment fund	4	4
Total current	**55**	**62**

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 2013 and 31 December 2012, the revaluation reserve arising from unrealized holding gains on these securities was USD 507 million and USD 596 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 (loss)/gain on revaluation and sale of trading securities for the three months ended 31 March 2013 and 2012 was USD (2) million and USD 3 million, respectively. These results are included in other operating income in the unaudited condensed consolidated interim statement of comprehensive income.

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

10. CASH AND CASH EQUIVALENTS

	31 March 2013	31 December 2012
Cash in banks, USD	115	37
Cash in banks, RUB	37	61
Cash in banks, EUR	8	15
Cash in banks, CHF	1	1
Cash in banks, TRY	-	1
Bank deposits, USD bearing interest rate of 0.25%-2% (31 December 2012: 0.25%-2%)	2	15
Bank deposits, EUR bearing interest rate of 31 December 2012: 0.6%	-	1
Bank deposits, RUB bearing interest rate of 6.96% (31 December 2012: 8.22%)	184	231
Total	**347**	**362**

11. LONG-TERM BORROWINGS

		Annual interest rate, actual at			
	Type of interest rate	31 March 2013	31 December 2012	31 March 2013	31 December 2012
Unsecured listed bonds, RUB	Fixed	8%	8%	452	621
Secured loans, USD	Floating	5%	6%	279	309
Secured loans, EUR	Fixed	6%	6%	276	317
Unsecured loans, USD	Floating	2%	2%	377	463
Unsecured loans, USD	Fixed	5%	5%	176	174
Unsecured loans, EUR	Fixed	3%	4%	4	4
Unsecured loans, EUR	Floating	2%	2%	297	348
Total				**1,861**	**2,236**

The information provided below refers to total long-term borrowings, including current portion, identified in Note 12.

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 (an option to require an early redemption of the bonds) is provided for the issue.

In December 2012, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 162 million at the date of issuance), bearing a semi-annual coupon rate of 8.70 % per annum, repayable in December 2022. A 3 year offer is provided for the issue.

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

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 2013 and 31 December 2012, the total unused element of all credit facilities was USD 1,151 million and USD 1,313 million, respectively.

At 31 March 2013 and 31 December 2012, long-term loans were secured by the Group’s property, plant and equipment with a net carrying amount of USD 1,349 million and USD 1,377 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 471 million and USD 303 million, respectively.

Debt repayment schedule

Year ended 31 March,	
2014 (presented as current portion of long-term borrowings, Note 12)	1,658
2015	735
2016	551
2017	277
2018 and thereafter	298
Total	**3,519**

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

		Annual interest rate, actual at			
	Type of interest rate	**31 March 2013**	**31 December 2012**	**31 March 2013**	**31 December 2012**
Short-term borrowings:					
Secured loans, USD	Floating	-	2%	-	62
Unsecured loans, USD	Floating	2%	2%	100	50
Unsecured loans, RUB	Fixed	-	7%	-	109
				100	221
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	8%	8%	627	487
Secured loans, USD	Floating	5%	5%	135	141
Secured loans, EUR	Fixed	6%	6%	69	74
Unsecured loans, USD	Floating	2%	2%	331	192
Unsecured loans, EUR	Floating	2%	2%	83	87
Unsecured loans, RUB	Fixed	7%	7%	322	329
Unsecured loans, USD	Fixed	5%	5%	88	96
Unsecured loans, EUR	Fixed	3%	4%	3	3
				1,658	1,409
Total				**1,758**	**1,630**

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

The weighted average interest rates of short-term borrowings at 31 March 2013 and 31 December 2012 were as follows:

	31 March 2013	**31 December 2012**
RUB-denominated	8%	8%
USD-denominated	3%	3%
EUR-denominated	4%	3%

At 31 March 2013 and 31 December 2012, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 13 million and USD 14 million, respectively.

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

	31 March 2013	**31 December 2012**
Due in:		
1 month	269	141
1-3 months	139	264
3 months to 1 year	1,350	1,225
Total	**1,758**	**1,630**

13. 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 2013 and 31 December 2012 and for the three months ended 31 March 2013 and 2012 are disclosed below.

a) Transactions with associates of the Group

	Three months ended 31 March	
	2013	**2012**
Purchases	37	52

Balances outstanding	**31 March 2013**	**31 December 2012**
Accounts receivable	1	8
Accounts payable	7	16

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

b) Transactions with entities under common control

	Three months ended 31 March	
	2013	**2012**
Finance income	1	1
Loans provided	-	25

Balances outstanding	**31 March 2013**	**31 December 2012**
Promissory notes receivable	124	126
Interest receivable	6	5

c) Transactions with other related parties

	Three months ended 31 March	
	2013	**2012**
Purchases	29	49
Bank charges	1	1

	Three months ended 31 March	
	2013	**2012**
Bank loans and overdrafts obtained	-	2

Balances outstanding	**31 March 2013**	**31 December 2012**
Cash and cash equivalents	114	28
Accounts payable	-	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 2013 and 2012, key management personnel received as compensation USD 8 million and USD 5 million, respectively.

14. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2013, the Group executed non-binding purchase agreements of approximately USD 29 million to acquire property, plant and equipment (31 December 2012 – USD 71 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.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information. In the absence of such information available-for-sale investments were presented at cost, net of impairment.

At 31 March 2013 and 31 December 2012, the estimated fair values of financial assets, including cash and cash equivalents, investments in securities, trade and other receivables, loans given and promissory notes, short-term borrowings, trade and other payables approximated their carrying values due to the short-term nature of these instruments.

The following table presents the carrying value of financial instruments measured at fair value at the end of reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value management. The levels are defined as follows:

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

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	Level 1	Level 2	Level 3	Total
31 March 2013				
Available for sale investments, listed equity securities	638	-	-	638
Available for sale investments, unlisted equity securities	-	-	9	9
Trading equity securities	36	-	-	36
Trading debt securities	1	-	-	1
Share in mutual investment fund	4	-	-	4
Total assets	**679**	**-**	**9**	**688**
Interest rate swaps	-	-	10	10
Total liabilities	**-**	**-**	**10**	**10**
31 December 2012				
Available for sale investments, listed equity securities	749	-	-	749
Available for sale investments, unlisted equity securities	-	-	9	9
Trading equity securities	44	-	-	44
Trading debt securities	-	-	-	-
Share in mutual investment fund	4	-	-	4
Total assets	**797**	**-**	**9**	**806**
Interest rate swaps	-	-	13	13
Total liabilities	**-**	**-**	**13**	**13**

The movement in the balance of Level 3 fair value measurements is as follows:

Derivative financial instruments:	**USD million**
At 1 January 2013	13
Changes in fair value estimation recognized during the year	(3)
Balance at 31 March 2013	**10**

16. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 4 April 2013, MMK redeemed in full unsecured listed bonds with the principal amount of RUB 8,000 million (USD 255 million at the date of redemption of the bonds).

In May 2013, promissory notes receivable from a related party under common control in amount of USD 41 million were redeemed.

17. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the three months ended 31 March 2013 were approved by the Group's management and authorized for issue on 5 June 2013.