Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Independent Accountants' Review Report

Condensed Consolidated Interim Financial Statements

As of March 31, 2007 and
December 31, 2006 and
For the Three Months
Ended March 31, 2007 and 2006

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS’ REVIEW REPORT

To the Shareholders of OJSC “Magnitogorsk Iron & Steel Works”:

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC “Magnitogorsk Iron & Steel Works” and its subsidiaries (the “Group”) as of March 31, 2007, the related condensed consolidated interim statements of operations and comprehensive income, statements of cash flows and changes in shareholders’ equity for the three months ended March 31, 2007 and 2006. These financial statements are the responsibility of the Group’s management.

We conducted our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche

June 8, 2007

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
AS OF MARCH 31, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in millions of U.S. Dollars, except share amounts)

	Note	March 31, 2007	December 31, 2006
ASSETS			
Current assets:			
Cash and cash equivalents		270	338
Short-term bank deposits	3	192	228
Short-term investments	4	315	325
Accounts receivable from third parties, less allowance for doubtful accounts of USD 11 as of March 31, 2007 and USD 12 as of December 31, 2006		834	834
Accounts receivable from related parties	13	16	17
Prepaid expenses		27	14
Inventories		700	688
Current deferred income tax assets		35	36
Total current assets		**2,389**	**2,480**
Property, plant and equipment, net		2,886	2,764
Investments in affiliates	5	123	123
Long-term investments	4	222	146
Long-term bank deposits	3	110	109
Long-term deferred income tax assets		10	10
Goodwill		2	2
Other intangible assets, net		43	43
Other long-term assets		19	12
TOTAL ASSETS		**5,804**	**5,689**

See notes to the condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (CONTINUED)
AS OF MARCH 31, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in millions of U.S. dollars, except share amounts)

	Note	March 31, 2007	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdrafts		2	2
Short-term borrowings and current portion of long-term debt	6	366	373
Current portion of long-term capital lease obligations		25	25
Accounts payable and accrued liabilities		553	545
Accounts payable to related parties	13	35	8
Current deferred income tax liabilities		15	11
Total current liabilities		**996**	**964**
Long-term debt, net of current portion	7	559	577
Long-term capital lease obligations, net of current portion		31	29
Employee benefit obligations	8	28	30
Long-term deferred income tax liabilities		85	50
Total liabilities		**1,699**	**1,650**
Minority interest		**20**	**12**
Shareholders' equity:			
Common stock	9	363	363
Treasury stock, at cost	9	(99)	(85)
Additional paid-in capital		268	254
Accumulated other comprehensive income		74	18
Retained earnings		3,479	3,477
Total shareholders' equity		**4,085**	**4,027**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,804**	**5,689**

See notes to the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved and signed on June 8, 2007, by:

V. I. Shmakov
Vice-President Finance

A. S. Batrutdinov
Deputy Chief Accountant

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)
(Amounts in millions of U.S. dollars, except earnings per share amounts)

	Note	Three months ended March 31, 2007	Three months ended March 31, 2006
Net revenue		1,845	1,216
Cost of products sold (exclusive of depreciation and amortization shown separately below)		(1,110)	(723)
Depreciation and amortization		(49)	(42)
Selling and distribution expenses		(131)	(81)
Administrative and other expenses		(64)	(59)
Social expenses			
Social asset construction costs		(7)	-
Social and maintenance expenses		(12)	(13)
Taxes other than income tax		(19)	(8)
Loss on disposal of property, plant and equipment		(9)	(2)
Other operating income, net		5	4
Income from operating activities		**449**	**292**
Equity in net losses of affiliates		(1)	(2)
Interest income		17	18
Interest expense		(15)	(14)
Net foreign exchange gain		21	47
Income before income tax and minority interest		**471**	**341**
Income tax expense		(121)	(92)
Income before minority interest		**350**	**249**
Minority interest		-	(1)
Net income		**350**	**248**
Other comprehensive income:			
Unrealized gain on securities classified as available for sale, net of income tax effect of USD 18, for the three months ended March 31, 2007		56	-
Comprehensive income		**406**	**248**
Basic and diluted earnings per common share (USD)	10	**0.034**	**0.024**

See notes to the condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)
(Amounts in millions of U.S. dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Operating activities:		
Net income	350	248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49	42
Loss on disposal of property, plant and equipment	9	2
Change in allowance for doubtful accounts receivable	(1)	(2)
Net gain on trading securities	(1)	-
Deferred income tax	15	10
Equity in net losses of affiliates	1	2
Minority interest	-	1
Changes in operating assets and liabilities:		
Increase in inventories	(10)	(45)
Decrease/(increase) in trade and other receivables	24	(149)
Decrease in investments classified as trading securities	12	-
Increase in trade accounts payable, accrued liabilities and other current liabilities	22	88
Increase in income tax prepaid	(34)	(13)
Net cash provided by operating activities	**436**	**184**
Investing activities:		
Proceeds from sales of property, plant and equipment	30	4
Proceeds from disposal of subsidiary	-	1
Purchase of investments in affiliates	-	(5)
Acquisition of subsidiaries, net of cash acquired	(17)	-
Advance paid for purchase of Pakistan Steel Mills Corporation	-	(12)
Purchase of property, plant and equipment	(176)	(144)
Purchase of intangible assets	(3)	(8)
Net change in bank deposits	36	-
Net cash of other investments	(6)	(4)
Net cash used in investing activities	**(136)**	**(168)**
Financing activities:		
Proceeds from loans	340	274
Loan principal paid	(374)	(196)
Acquisition of treasury shares	(19)	-
Proceeds from re-issuance of treasury shares	19	5
Principal payments on capital lease obligations	(8)	(6)
Dividends paid	(330)	(7)
Net cash (used in)/provided by financing activities	**(372)**	**70**
Effect of exchange rate changes on cash and cash equivalents	4	(7)
Net (decrease)/increase in cash and cash equivalents	**(68)**	**79**
Cash and cash equivalents at beginning of the period	**338**	**1,138**
Cash and cash equivalents at end of the period	**270**	**1,217**
Supplementary information:		
Interest paid	(10)	(2)
Income tax paid	(140)	(95)
Non-cash investing and financing activities:		
Machinery and equipment acquired under capital leases	7	15

See notes to the condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED)
(Amounts in millions of U.S. dollars)

	Note	Common stock	Common treasury stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
Balance as of January 1, 2006		**363**	**(64)**	**247**	**-**	**3,131**	**3,677**
Re-issuance of treasury shares, net of income tax effect of USD 0.2		-	1	4	-	-	**5**
Net income		-	-	-	-	248	**248**
Balance as of March 31, 2006		**363**	**(63)**	**251**	**-**	**3,379**	**3,930**
Balance as of January 1, 2007		**363**	**(85)**	**254**	**18**	**3,477**	**4,027**
Acquisition of treasury shares		-	(19)	-	-	-	**(19)**
Re-issuance of treasury shares, net of income tax effect of USD 3		-	5	14	-	-	**19**
Revaluation of securities classified as available for sale, net of income tax effect of USD 18		-	-	-	56	-	**56**
Dividends	9	-	-	-	-	(348)	**(348)**
Net income		-	-	-	-	350	**350**
Balance as of March 31, 2007		**363**	**(99)**	**268**	**74**	**3,479**	**4,085**

See notes to the condensed consolidated interim financial statements.

1. DESCRIPTION OF BUSINESS

The condensed consolidated interim financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries ("the Group") comprise the parent company, Open Joint Stock Company Magnitogorsk Iron & Steel Works ("the Parent Company"), and its 58 subsidiaries. The Parent Company is an open joint stock company as defined in the Civil Code of the Russian Federation. The head office of the Group is located at:

Ulitsa Kirova 93,
455002, Magnitogorsk,
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 October 17, 1992 as part of the Russian Federation privatization program. The principal activity of the Group is the production of ferrous metal products at the Parent Company's plant located in the city of Magnitogorsk in the Chelyabinsk region of the Russian Federation. The Group's products are sold in the Russian Federation and abroad. The Group's subsidiaries are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying condensed consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The condensed consolidated interim financial statements do not include all of the information required for disclosure in annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements as of and for the year ended December 31, 2006. Accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2006.

The Group's Russian entities maintain their accounting records in Russian Rubles ("RUR") in accordance with the requirements of Russian accounting and tax legislation.

The accompanying condensed consolidated interim financial statements differ from financial statements prepared for statutory purposes in the Russian Federation in that they reflect certain adjustments, appropriate to present the consolidated financial position, results of operations and cash flows in accordance with U.S. GAAP.

Principles of consolidation

The condensed consolidated interim financial statements include the financial statements of the Parent Company as well as entities where the Parent Company has operating and financial control through direct or indirect ownership of a majority voting interest. All significant intercompany transactions, balances and unrealized gains/(losses) on transactions have been eliminated.

Entities acquired or disposed of during the period are included in the condensed consolidated interim financial statements from the date of acquisition or to the date of disposal.

Use of estimates

The preparation of condensed consolidated interim financial statements in conformity with U.S. GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period. Examples of significant estimates include the allowance for doubtful accounts, the recoverability of intangible assets and other long-lived assets and valuation allowances on deferred tax assets. Actual results could differ from those estimates.

Concentration of business risk

The Group's principal business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes, which could impact the Group's assets and operations.

Reporting and functional currencies

The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("FAS") No. 52, "Foreign Currency Translation".

The national currency of the Russian Federation is the RUR, the local currency of the Group's primary operating subsidiaries. The Group has determined the functional currency of the Parent Company and each of its subsidiaries to be the U.S. dollar ("USD"). Management believes that USD is the appropriate functional currency for other subsidiaries of the Group.

Monetary assets and liabilities have been remeasured into USD at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been remeasured into USD at historical rates. Revenues, expenses and cash flows have been remeasured into USD at rates which approximate actual rates at the date of the transaction. Remeasurement differences resulting from the use of these rates are included in the condensed consolidated interim statement of operations and comprehensive income.

As of March 31, 2007 and December 31, 2006, exchange rates of 26.01 and 26.33 RUR to USD, respectively, have been used for remeasurement purposes. The weighted average exchange rates for the three months ended March 31, 2007 and 2006 were 26.30 and 28.16 RUR to USD, respectively.

The RUR is not a readily convertible currency outside the territory of the Russian Federation. Accordingly, remeasurement of amounts recorded in RUR into USD should not be construed as a representation that the RUR amounts have been, could be, or will in the future be converted into USD at the exchange rate shown or at any other exchange rate.

Comprehensive income

FAS No. 130, "Reporting Comprehensive Income", requires the reporting of comprehensive income in addition to net income. Accumulated other comprehensive income includes foreign currency translation adjustments, unrealized holding gains and losses on available-for-sale securities and on derivative financial instruments, as well as additional pension liabilities not yet recognized as net periodic pension cost.

Segment information

According to FAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, segment reporting follows the internal organizational and reporting structure of the Group. The Group operates in a single business segment, which is composed of the manufacturing of semi-finished and finished steel products. The revenues from the sale of these products constitute more than 95 percent of total revenues. All significant assets, production and management and administrative facilities are located in the city of Magnitogorsk, the Russian Federation.

3. SHORT-TERM AND LONG-TERM BANK DEPOSITS

	March 31, 2007	December 31, 2006
Short-term bank deposits		
Bank deposits, RUR	192	228
Long-term bank deposits		
Bank deposits, RUR	110	109

As of March 31, 2007 and December 31, 2006, the weighted average interest rates on short-term bank deposits with original maturities exceeding ninety days were 10.20% and 10.08%, respectively.

As of March 31, 2007 and December 31, 2006, long-term subordinated deposits were placed in a Russian bank and not available to be withdrawn before December 15, 2009.

As of March 31, 2007 and December 31, 2006, the weighted average interest rate on long-term bank deposits was 6.50%.

4. SHORT-TERM AND LONG-TERM INVESTMENTS

	March 31, 2007	December 31, 2006
Short-term investments		
Trading promissory notes	208	212
Trading debt securities	67	78
Trading equity securities	36	30
Share in mutual investment fund	4	5
	315	**325**
Long-term investments		
Equity securities classified as available for sale	**222**	**146**

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

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

Net gains on trading securities for the three months ended March 31, 2007 and 2006 were USD 1 million and USD nil, respectively. Those gains were included in other operating income in the condensed consolidated interim statement of operations and comprehensive income.

Long-term 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 no significant influence. As of March 31, 2007 and December 31, 2006, unrealized holding gains on these securities were USD 74 million and USD 18 million, net of the related income tax effect of USD 23 million and USD 5 million, respectively, and reported as a separate component of other comprehensive income.

5. INVESTMENTS IN AFFILIATES

The Group's equity method investments in affiliates as of March 31, 2007 and December 31, 2006 comprised the following:

		Investment carrying value		Ownership and voting interest, %	
Affiliate	**Registered in**	**March 31, 2007**	**December 31, 2006**	**March 31, 2007**	**December 31, 2006**
Carrying value of investments					
LLC M-Port	Russia	46	46	50%	50%
CJSC Kazankovskaya Mine	Russia	33	33	50%	50%
LLC MMK Trans	Russia	4	5	50%	50%
Loans provided to affiliates					
CJSC Kazankovskaya Mine	Russia	40	39		
		123	**123**		

As of March 31, 2007 and December 31, 2006, the Group provided CJSC Kazankovskaya Mine with a total of USD 40 million and USD 39 million in unsecured loans, respectively, with maturity in December 2013. These loans bear interest of 10% per annum. As of March 31, 2007 and December 31, 2006, the outstanding amount of loans provided included accrued interest of USD 5 million and USD 4 million, respectively.

6. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM DEBT

	Type ofinterest rate	**Annual interest rate (actual as of March 31, 2007)**	**March 31, 2007**	**December 31, 2006**
Short-term borrowings:				
Secured loans, USD	Floating	6%	184	226
Secured loans, RUR	Fixed	10%	12	6
Unsecured loans, RUR	Floating	8%	17	17
Unsecured loans, RUR	Fixed	11%	1	1
			214	250
Current portion of long-term debt:				
Unsecured corporate bonds, USD	Fixed	9%	10	4
Secured loans, RUR	Fixed	11%	1	1
Unsecured loans, USD	Floating	6%	117	98
Unsecured loans, RUR	Floating	8%	11	10
Unsecured loans, RUR	Fixed	9%	8	7
Unsecured loans, USD	Fixed	5%	3	2
Unsecured loans, EUR	Fixed	6%	2	1
			152	123
			366	**373**

The weighted average interest rate of the RUR-denominated short-term borrowings as of March 31, 2007 and December 31, 2006 was 9%. The weighted average interest rate of the USD-denominated short-term borrowings as of March 31, 2007 and December 31, 2006 was 6%.

As of March 31, 2007 and December 31, 2006, short-term borrowings were secured by the Group's property, plant and equipment with a net carrying amount of USD 5 million and USD 1 million, respectively, and inventory of USD 17 million and USD 9 million, respectively.

7. LONG-TERM DEBT, NET OF CURRENT PORTION

	Type of interest rate	Annual interest rate (actual as of March 31, 2007)	March 31, 2007	December 31, 2006
Unsecured corporate bonds, USD	Fixed	9%	298	299
Secured loans, RUR	Fixed	12%	1	1
Unsecured loans, USD	Floating	6%	231	257
Unsecured loans, USD	Fixed	5%	9	10
Unsecured loans, RUR	Fixed	10%	7	5
Unsecured loans, EUR	Fixed	6%	5	3
Unsecured loans, RUR	Floating	7%	8	2
			559	**577**

Credit facilities

The most significant debt provided by financial institutions included credit line facilities from certain Russian and foreign banks. As of March 31, 2007 and December 31, 2006, the total unused portions of all credit facilities were USD 128 million and USD 246 million, respectively.

The information provided below refers to total long-term debt, including its current portion, identified in Note 6.

Corporate bonds

In October 2003, MMK Finance S.A., a wholly-owned subsidiary of the Group, issued on the Luxembourg Stock Exchange USD 300 million of 8% notes at an issue price of 98.99 percent, due in October 2008. The notes are fully, unconditionally and irrevocably guaranteed by the Parent Company. Interest payments on the notes are due semi-annually in equal installments on April 21 and October 21 of each year, commencing April 21, 2004. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. For the three months ended March 31, 2007 and 2006, interest expenses on these notes amounted to USD 6 million for each quarter.

Loans

In 2006, foreign banks provided USD-denominated loans, bearing interest at LIBOR+1.00% (6.32% as of March 31, 2007) per annum with maturity in June 2009. As of March 31, 2007, the outstanding balance was USD 144 million.

In 2005, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.25% (5.58% as of March 31, 2007), LIBOR+0.30% (5.63% as of March 31, 2007) and 4.05% per annum maturing serially from 2009 to 2011. The commitment fees are from 0.07% to 0.08% per annum on the undrawn facilities. As of March 31, 2007, the outstanding balance of these loans was USD 67 million.

In 2004, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.18% (5.51% as of March 31, 2007) and LIBOR+0.25% (5.62% as of March 31, 2007) per annum maturing serially from 2010 to 2011. The commitment fees are from 0.08% to 0.10% per annum on the undrawn facilities. As of March 31, 2007, the outstanding balance of these loans was USD 99 million.

In 2003, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.30% (5.63% as of March 31, 2007), LIBOR+0.45% (5.83% as of March 31, 2007) and LIBOR+0.75% (6.12% as of March 31, 2007) per annum maturing serially from 2008 to 2011. The commitment fees are from 0.10% to 0.20% per annum on the undrawn facilities. As of March 31, 2007, the outstanding balance of these loans was USD 47 million.

In 2002, a foreign bank provided a USD-denominated loan, bearing interest at LIBOR+0.80% (5.90% as of March 31, 2007) per annum with maturity in June 2007. The commitment fee is 0.50% per annum on the undrawn facility. As of March 31, 2007, the outstanding balance of this loan was USD 3 million.

The bank loans are subject to certain restrictive covenants, including, but not limited to:

- The ratio of consolidated debt / consolidated EBITDA should not exceed 3.5:1; and
- The ratio of consolidated EBITDA / consolidated debt service should not be less than 3:1.

As of March 31, 2007 and December 31, 2006, loans were secured by the Group’s property, plant and equipment with a net carrying amount of USD nil and USD 2 million, respectively, and inventory of USD 2 million and USD 2 million, respectively.

Debt repayment schedule

Year ended March 31,	
2008 (presented as current portion of long-term debt, Note 6)	152
2009	425
2010	74
2011	45
2012 and thereafter	15
	711

8. EMPLOYEE BENEFITS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 20 million and USD 13 million for the three months ended March 31, 2007 and 2006, respectively.

In addition, the Group makes monthly contributions to a non-government pension fund, Sotsialnaya Zashchita Starosti, where its employees have individual accumulation agreements with the fund. The Group has the ability to exercise significant influence over the financial and operating policy decisions of the fund through positions that certain directors of the Group have on the board of directors of the fund. The monthly contribution made by the Group is equal to the employee’s contribution, unless the employee is a male aged between 55 and 60, or a female aged between 50 and 55, in which case the contribution is 1.5 times the employee’s contribution. For the three months ended March 31, 2007 and 2006, the maximum monthly contributions by the Group for each employee were RUR 6,000 (USD 228) and RUR 6,000 (USD 216), respectively. The Group’s total contributions to the fund amounted to USD 0.8 million and USD 0.8 million for the three months ended March 31, 2007 and 2006, respectively.

Defined benefit plan

The Group has a defined benefit plan in favour of employees who retired prior to April 1, 2001. Effective April 1, 2001, no employees retiring after that date were allowed to participate in the plan. Pensions from this defined benefit plan are administered by the independent charity fund BOF Metallurg.

Those employees receive lifetime pension payments varying from RUR 250 (USD 9.50) to RUR 450 (USD 17.11) per month depending on the employee's actual years of service and qualifications.

For the three months ended March 31, 2007 and 2006, the Group made monthly payments to the fund of RUR 388 (USD 14.77) and RUR 327 (USD 11.78), respectively, per retiree, which were then distributed by the fund to the retirees.

As of March 31, 2007 and December 31, 2006, principal actuarial assumptions used in determining the projected benefit obligations and net periodic pension expense were as follows:

	March 31, 2007	**December 31, 2006**
Discount rate	9.0%	9.0%
Future pension benefit increases	8.0%	8.4%
Average life expectancy of members from date of retirement	10.0	10.4

The change in the projected benefit obligations is presented in the following table:

	Three months ended March 31, 2007	**Three months ended March 31, 2006**
Projected benefit obligations at beginning of the period	30	26
Interest cost	1	1
Actuarial gains	(2)	(2)
Benefit payments during the period	(1)	(1)
Foreign exchange losses	-	1
Unfunded status of the plan at end of the period	**28**	**25**

The fund does not hold any assets set aside for the benefit of retirees under this plan.

The accumulated benefit obligations as of March 31, 2007 and December 31, 2006 were as follows:

	March 31, 2007	**December 31, 2006**
Accumulated benefit obligations	**28**	**30**

The components of the net periodic benefit costs for the three months ended March 31, 2007 and 2006 were as follows:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Interest cost	1	1
Actuarial gains	(2)	(2)
Foreign exchange losses	-	1
	(1)	**-**

Net periodic benefit costs were recognized as part of administrative expenses in the condensed consolidated interim statement of operations and comprehensive income.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows:

Year ended March 31,	
2008	3
2009	3
2010	3
2011	2
2012	2
2013-2017	8
Thereafter	7
	28

9. SHAREHOLDERS' EQUITY

Common stock

As of March 31, 2007 and December 31, 2006, the Parent Company had 10,630,222 thousand issued and outstanding common shares with a par value of RUR 1 each.

On January 18, 2007, the Parent Company registered an additional issuance of common stock of 1,450,000 thousand shares with a par value of RUR 1 each.

Treasury stock

As of March 31, 2007 and December 31, 2006, the Group held as treasury shares 482,198 thousand and 485,062 thousand, respectively, issued common shares of the Parent Company.

All treasury stock is recorded at cost.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

Dividends

On March 30, 2007, the Parent Company declared a final dividend of RUR 0.891 (USD 0.034) per common share in respect of the year ended December 31, 2006 representing a total dividend of USD 364 million. Of this total, USD 16 million was attributable to Group entities.

10. EARNINGS PER COMMON SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during the period. Diluted net income per common share assumes the exercise of stock options, the vesting of restricted stock and the conversion of preferred stock, provided in each case the effect is dilutive.

The calculation of basic and diluted earnings per common share for the three months ended March 31, 2007 and 2006 was as follows:

	Three months ended March 31, 2007	**Three months ended March 31, 2006**
Net income applicable to common stock	350	248
Weighted average number of common shares outstanding (in thousands):		
Basic	10,363,581	10,162,390
Diluted	10,363,581	10,162,390
Earnings per common share (USD):		
Basic	0.034	0.024
Diluted	0.034	0.024

There were no dilutive securities issued as of March 31, 2007 and 2006.

11. ACQUISITIONS

LLC Bakalskoe Rudoupravlenie

On January 31, 2007, the Group acquired a 51% stake in LLC Bakalskoe Rudoupravlenie, a mining company located in the Chelyabinsk region, for a cash consideration of USD 15 million.

This acquisition was accounted for using the purchase method. The Group determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. The excess of the fair value of the net assets acquired over the purchase price has been allocated as a pro rata reduction of USD 2 million of the amounts that otherwise would have been assigned to property, plant and equipment, in accordance with FAS No. 141, “Business Combinations”. The purchase price allocation for the acquisition was as follows:

Current assets	3
Non-current assets	29
Deferred income tax	(7)
Current liabilities	(6)
Non-current liabilities	(2)
Minority interest	(2)
Purchase price	**15**

The purchase price allocation for this acquisition has not been yet finalized at the date of these condensed consolidated interim financial statements.

LLC UK RFTs-Kapital

On January 9, 2007, the Group acquired a 100% stake in LLC UK RFTs-Kapital, an investing company, for a cash consideration of USD 2 million. The excess of the fair value of the net assets acquired over the purchase price in amount of USD 1 million has been included in other operating income.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value of financial instruments

The estimated fair value of certain financial instruments has 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 realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material impact on the estimated fair values.

As of March 31, 2007, the estimated fair value of financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable, approximated their carrying value due to the short-term nature of these instruments. As of March 31, 2007, USD 300 million of corporate bonds due in 2008 had a fair value of 102.5% or USD 308 million. The fair value of other fixed-rate debt including capital lease obligations and floating-rate debt approximated its carrying value.

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The Group does not anticipate non-performance by counterparties. The Group generally does not require collateral or other security to support financial instruments with credit risk.

Financial instruments that potentially subject the Group to significant credit risk primarily consist of cash and cash equivalents, bank deposits and accounts receivable.

The Group has bank accounts, held in OJSC Credit Ural Bank (“OJSC CUB”), a related party of the Group. In addition the Group classifies promissory notes, purchased from OJSC CUB, as cash equivalents. Also the Group holds significant amounts of cash in bank deposits in Russian banks. To reduce risk the Group performs credit risk exposure evaluations for all banks in which the Group holds bank deposits on a monthly basis.

The Group sells its products to a number of customers globally. The Group grants credit to its customers based on an evaluation of each customer’s financial position, in certain cases, without requiring guarantees or letters of credit, and thereafter monitors the exposure of potential losses from granting credit. To reduce risk the Group routinely assesses the financial strength of its customers and as a consequence, believes that its accounts receivable credit risk exposure is limited.

The maximum credit risk exposure is represented by the carrying amount of each financial asset and the contractual amounts of the financial guarantees and is disclosed in Note 14.

13. RELATED PARTY TRANSACTIONS

Related parties include shareholders, key management personnel, affiliates and entities under common ownership, and entities over which the Group has the ability to exercise a significant influence.

Cash held at a related party bank is disclosed in Note 12. Issuance of guarantees in favor of related parties is disclosed in Note 14.

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

CJSC Profit

CJSC Profit, a company affiliated with the Group’s controlling shareholders, purchases scrap metals from third parties and Group entities, reprocesses it and sells reprocessed scrap metals to the Group.

OJSC CUB

The Group holds certain deposits and current accounts in OJSC CUB, a commercial bank affiliated with the Group’s controlling shareholders and the Group’s management. During the reporting period the Group received financing from OJSC CUB in the form of loans for the Group’s operating activities.

LLC MMK Trans

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

OJSC SKM

OJSC SKM, an insurance company affiliated with the Group’s controlling shareholders and the Group’s management, provides insurance 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 the Kemerovo region, the Russian Federation. The Group provided loans to CJSC Kazankovskaya Mine.

CJSC SKM-Invest

CJSC SKM-Invest, a leasing company affiliated with the Group’s management, provides assets under capital lease to the Group.

Transactions	**Three months ended March 31, 2007**	**Three months ended March 31, 2006**
Revenue		
CJSC Profit	33	24
Purchases		
CJSC Profit	249	103
LLC MMK Trans	4	4
Total	253	107
Loans provided		
CJSC Kazankovskaya Mine	-	10
OJSC SKM	-	2
Total	-	12
Bank charges		
OJSC CUB	1	3
Loans and overdrafts obtained		
OJSC CUB	22	3
Loans and overdrafts repaid		
OJSC CUB	21	4
Insurance payments		
OJSC SKM	7	8
Lease payments		
CJSC SKM-Invest	5	3

Balances	March 31, 2007	December 31, 2006
Cash and cash equivalents		
OJSC CUB	101	151
Loans and overdraft facilities		
OJSC CUB	8	6
Loans provided		
CJSC Kazankovskaya Mine	40	39
Accounts receivable		
CJSC Profit	14	13
LLC MMK Trans	2	4
Total	16	17
Accounts payable		
CJSC Profit	17	5
LLC MMK Trans	6	2
Total	23	7
Insurance payable		
OJSC SKM	12	1
Lease payable		
CJSC SKM-Invest	18	25

14. CONTINGENCIES

Issued guarantees

As of March 31, 2007 and December 31, 2006, the Group has provided financial guarantees for loans obtained by certain related and third party suppliers of the Group. The amounts related to the Group's financial guarantees were as follows:

	March 31, 2007	December 31, 2006
Non-current		
Related parties	195	200
Third parties	39	37
	234	**237**
Current		
Related parties	6	1
Third parties	6	7
	12	**8**
Total	**246**	**245**

The Group’s estimated maximum exposure to credit risk in the event of non-performance by other parties to these financial guarantees is represented by the contractual amounts disclosed above. The Group’s management believes that the likelihood of material payments being required under these agreements is remote.

As of March 31, 2007, the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

Litigation

As of March 31, 2007, the Group was subject to various lawsuits, claims and proceedings related to matters incidental to its business. In the opinion of the Group’s management, as of March 31, 2007, there were no material unresolved adverse claims or other matters.

Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying 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.

Tax contingencies

The tax system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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 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 all 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 condensed consolidated interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental liabilities

The Group is obligated to undertake certain environmental remediation activities to ensure site restoration of a large iron ore quarry in the Magnitogorsk region, the Russian Federation. In accordance with permission granted by the Magnitogorsk Regional Ecological Committee, the Group utilizes production waste to fill the iron ore quarry where this waste does not exceed a prescribed toxicity level. Amounts of waste which exceed this toxicity level are not significant and are treated by licensed specialists. The future cost associated with the restoration of the iron ore quarry are not expected to be significant. These costs and other environmental compliance costs associated with air and water pollution are included in the normal operating expenses of the Group as they are incurred.

Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, management believes that there are no significant unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results or financial position of the Group.

15. DISPOSAL OF SUBSIDIARY

On March 10, 2006, the Group disposed of its entire operations of CJSC Shakhtouchastok Uregolskiy, a subsidiary of the Group, to OJSC Coal Company Yuzhniy Kuzbass for a cash consideration of USD 7 million. Net assets of CJSC Shakhtouchastok Uregolskiy comprised property, plant and equipment with a net carrying amount of USD 7 million.

16. SUBSEQUENT EVENTS

In April 2007, the Parent Company successfully completed an initial public offering ("IPO") of its shares on the London Stock Exchange. The Parent Company and Mintha Holding Limited (the "Selling Shareholder") offered 1,040,000 thousand shares in the form of ordinary shares and global depository receipts ("GDRs"), with each GDR representing 13 newly issued ordinary shares. The offer price was USD 0.961538 per ordinary share and USD 12.5 per GDR. The proceeds from the IPO amounted to USD 982 million, net of capitalized fees and commission payable totalling USD 18 million.

On April 16, 2007, a coupon was paid to the holders of bonds of USD 12 million (Note 7).

In May 2007, the Group announced a joint venture with Atakas Group, Turkey, to establish a metal processing facility located in Turkey. The Group plans to have 50% plus 1 share in the newly established company.