Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Independent Accountant's Review Report

Condensed Consolidated Interim Financial Statements

As of March 31, 2008 and
December 31, 2007 and
For the Three Months
Ended March 31, 2008 and 2007

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

INDEPENDENT ACCOUNTANT'S 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, 2008, 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, 2008 and 2007. These interim financial statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures to financial data and 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.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as of December 31, 2007, the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated March 12, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

May 12, 2008

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2008 (INTERIM, UNAUDITED) AND DECEMBER 31, 2007
(Amounts in millions of U.S. Dollars)

	Note	March 31, 2008	December 31, 2007
ASSETS			
Current assets			
Cash and cash equivalents		402	256
Short-term bank deposits	3	1,334	1,279
Short-term investments	4	356	393
Accounts receivable from third parties, less allowance for doubtful accounts of USD 8 as of March 31, 2008 and December 31, 2007		1,412	1,306
Accounts receivable from related parties	14	26	85
Prepaid expenses		21	13
Inventories		1,075	946
Current deferred income tax assets		7	13
Total current assets		**4,633**	**4,291**
Property, plant and equipment, net	5	4,437	3,879
Investments in affiliates	6	319	76
Long-term investments	4	912	993
Long-term deferred income tax assets		14	16
Goodwill		70	65
Other intangible assets, net		39	46
Other long-term assets		21	16
TOTAL ASSETS		**10,445**	**9,382**

See notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF MARCH 31, 2008 (INTERIM, UNAUDITED) AND DECEMBER 31, 2007
(Amounts in millions of U.S. dollars)

	Note	March 31, 2008	December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdrafts		13	9
Short-term borrowings and current portion of long-term debt	7	1,629	1,189
Current portion of long-term capital lease obligations		26	26
Accounts payable and accrued liabilities		727	673
Accounts payable to related parties	14	26	13
Current deferred income tax liabilities		10	11
Total current liabilities		**2,431**	**1,921**
Long-term debt, net of current portion	8	187	200
Long-term capital lease obligations, net of current portion		28	30
Employee benefit obligations	9	37	37
Long-term deferred income tax liabilities		331	283
Total liabilities		**3,014**	**2,471**
Commitments and contingencies	15,16	**-**	**-**
Minority interest		**131**	**87**
Shareholders' equity:			
Common stock	10	386	386
Treasury stock, at cost	10	(3)	(1)
Additional paid-in capital		1,106	1,105
Accumulated other comprehensive income		820	614
Retained earnings		4,991	4,720
Total shareholders' equity		**7,300**	**6,824**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,445**	**9,382**

See notes to the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved and signed on May 12, 2008, by:

S. V. Krivoshchekov
Vice-President Property Management

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, 2008 AND 2007 (UNAUDITED)
(Amounts in millions of U.S. dollars, except earnings per share amounts)

	Note	Three months ended March 31, 2008	Three months ended March 31, 2007
Net revenue		2,169	1,845
Cost of products sold (exclusive of depreciation and amortization shown separately below)		(1,413)	(1,110)
Depreciation and amortization		(73)	(49)
Selling and distribution expenses		(162)	(131)
Administrative and other expenses		(85)	(64)
Social expenses			
Social asset construction costs		-	(7)
Social and maintenance expenses		(18)	(12)
Taxes other than income tax		(24)	(19)
Income/(loss) on disposal of property, plant and equipment		1	(9)
Other operating (loss)/income, net		(2)	5
Income from operating activities		**393**	**449**
Equity in net income/(loss) of affiliates		1	(1)
Interest income		36	17
Interest expense		(16)	(15)
Net foreign exchange gain		41	21
Income before income tax and minority interest		**455**	**471**
Income tax expense		(185)	(121)
Income before minority interest		**270**	**350**
Minority interest		1	-
Net income		**271**	**350**
Other comprehensive income:			
Unrealized (loss)/gain on securities classified as available for sale, net of income tax effect of USD (31) and USD 18 for the three months ended March 31, 2008 and 2007, respectively		(97)	56
Currency translation adjustment	2	303	-
Comprehensive income		**477**	**406**
Basic and diluted earnings per common share (USD)	11	**0.024**	**0.034**

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, 2008 AND 2007 (UNAUDITED)
(Amounts in millions of U.S. dollars)

	Note	Three months ended March 31, 2008	Three months ended March 31, 2007
Operating activities:			
Net income		271	350
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		73	49
(Income)/loss on disposal of property, plant and equipment		(1)	9
Change in allowance for doubtful accounts receivable		-	(1)
Net loss/(gain) on trading securities		4	(1)
Deferred income tax		73	15
Equity in net (income)/loss of affiliates		(1)	1
Minority interest		(1)	-
Changes in operating assets and liabilities:			
Increase in inventories		(85)	(10)
Decrease in trade and other receivables		4	24
Decrease in investments classified as trading securities		49	12
Increase in trade accounts payable, accrued liabilities and other current liabilities		93	22
Decrease/(increase) in prepaid income tax		2	(34)
Net cash provided by operating activities		**481**	**436**
Investing activities:			
Proceeds from sales of property, plant and equipment		11	30
Acquisition of investments in affiliates	6	(234)	-
Acquisition of subsidiaries, net of cash acquired	12	(3)	(17)
Purchase of property, plant and equipment		(494)	(176)
Purchase of intangible assets		(2)	(3)
Net change in bank deposits		1	36
Net cash of other investments		(11)	(6)
Net cash used in investing activities		**(732)**	**(136)**
Financing activities:			
Proceeds from loans		970	340
Loan principal repaid		(574)	(374)
Proceeds from capital transactions of subsidiaries		41	-
Net increase in bank overdrafts		3	-
Acquisition of treasury shares		(3)	(19)
Proceeds from re-issuance of treasury shares		2	19
Principal payments on capital lease obligations		(10)	(8)
Dividends paid		(6)	(330)
Net cash provided by/(used in) financing activities		**423**	**(372)**
Effect of exchange rate changes on cash and cash equivalents		(26)	4
Net increase/(decrease) in cash and cash equivalents		**146**	**(68)**
Cash and cash equivalents at beginning of the period		**256**	**338**
Cash and cash equivalents at end of the period		**402**	**270**
Supplementary information:			
Interest paid		(9)	(10)
Income tax paid		(110)	(140)
Non-cash investing and financing activities:			
Machinery and equipment acquired under capital leases		3	7

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, 2008 AND 2007 (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, 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	10	-	-	-	-	(348)	**(348)**
Net income		-	-	-	-	350	**350**
Balance as of March 31, 2007		**363**	**(99)**	**268**	**74**	**3,479**	**4,085**
Balance as of January 1, 2008		**386**	**(1)**	**1,105**	**614**	**4,720**	**6,824**
Acquisition of treasury shares		-	(3)	-	-	-	**(3)**
Re-issuance of treasury shares, net of income tax effect of USD 0.2		-	1	1	-	-	**2**
Revaluation of securities classified as available for sale, net of income tax effect of USD (31)		-	-	-	(97)	-	**(97)**
Net income		-	-	-	-	271	**271**
Currency translation adjustment	2	-	-	-	303	-	**303**
Balance as of March 31, 2008		**386**	**(3)**	**1,106**	**820**	**4,991**	**7,300**

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 57 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, 2007. 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, 2007.

The Group's Russian entities maintain their accounting records in Russian Rubles ("RUB") in accordance with the requirements of the 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

Prior to January 1, 2008, it was determined that U.S. dollar ("USD") was the functional currency of all of the Group's entities except for MMK Atakas Metalurji, where the functional currency was the New Turkish Lira ("TRY").

Effective January 1, 2008, the functional currency of the Group's entities except for MMK Atakas Metalurji, was changed by the Group's management from USD to RUB because of significant changes in economic facts and circumstances of the Group's operations. This change in functional currency was applied on a prospective basis.

These condensed consolidated interim financial statements are presented in millions of USD. Using USD as a reporting currency is considered by the management to be more relevant for users of the consolidated financial statements of the Group.

The translation into USD of the financial statements of the Group's subsidiaries with a functional currency other than USD is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each condensed consolidated balance sheet presented;
- All items included in the consolidated shareholders' equity, other than net income, are translated at historical exchange rates;
- All income and expenses in each condensed consolidated interim statement of operations and comprehensive income are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the period an average exchange rate for the period is applied;
- Resulting exchange differences are included in the other comprehensive income as "Currency translation adjustment"; and
- In the condensed consolidated interim statement of cash flows, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the period an average exchange rate for the period is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of exchange rate changes on cash and cash equivalents".

As of March 31, 2008 and December 31, 2007, exchange rates of 23.52 RUB and 24.55 RUB to 1 USD, respectively, have been used for translation purposes. The weighted average exchange rates for the three months ended March 31, 2008 and 2007 were 24.24 RUB and 26.30 RUB to 1 USD, respectively.

As of March 31, 2008 and December 31, 2007, exchange rates of 1.28 TRY and 1.17 TRY to 1 USD, respectively, have been used for translation purposes. The weighted average exchange rate for the three months ended March 31, 2008 was 1.20 TRY to 1 USD.

The RUB is not a readily convertible currency outside the territory of the Russian Federation. Accordingly, translation of amounts recorded in RUB into USD should not be construed as a representation that RUB 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.

Other comprehensive income

Other comprehensive income includes foreign currency translation adjustments, unrealized holding gains and losses on available for sale securities and derivative financial instruments, as well as additional pension liabilities not yet recognized as net periodic pension cost.

Segment information

Segment reporting follows the internal organization 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. 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, Russian Federation.

3. SHORT-TERM BANK DEPOSITS

	March 31, 2008	December 31, 2007
Short-term bank deposits		
Bank deposits, RUB	1,334	1,279

As of March 31, 2008 and December 31, 2007, the weighted average interest rate on short-term bank deposits with original maturities exceeding ninety days was 9.82%.

4. SHORT-TERM AND LONG-TERM INVESTMENTS

	March 31, 2008	December 31, 2007
Short-term investments		
Trading equity securities	292	321
Trading debt securities	50	59
Share in mutual investment fund	12	12
Trading promissory notes	2	1
	356	**393**
Long-term investments		
Equity securities classified as available for sale	**912**	**993**

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 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 trade prices obtained from investment brokers.

The net loss on trading securities for the three months ended March 31, 2008 was USD 4 million and the net gain for the three months ended March 31, 2007 was USD 1 million. Those results were included in other operating income/(loss) 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, 2008 and December 31, 2007, unrealized holding gains on these securities were USD 517 million and USD 614 million, respectively, net of the related income tax effect of USD 162 million and USD 193 million, respectively. These gains are reported as a separate component of other comprehensive income.

5. PROPERTY, PLANT AND EQUIPMENT, NET

	Gross carrying value	**Accumulated depreciation**	**Net carrying value**
Land and buildings	1,769	(775)	994
Mineral licenses	45	(2)	43
Machinery and equipment	3,970	(2,143)	1,827
Transportation equipment	184	(114)	70
Fixtures and fittings	148	(72)	76
Construction-in-progress	998	-	998
Advance payments for property, plant and equipment	429	-	429
Balance as of March 31, 2008	**7,543**	**(3,106)**	**4,437**
Land and buildings	1,623	(734)	889
Mineral licenses	43	(1)	42
Machinery and equipment	3,704	(2,036)	1,668
Transportation equipment	184	(117)	67
Fixtures and fittings	132	(63)	69
Construction-in-progress	790	-	790
Advance payments for property, plant and equipment	354	-	354
Balance as of December 31, 2007	**6,830**	**(2,951)**	**3,879**

In December 2006, the Group acquired at a state auction an exploration and development license for the Prioskolskoe iron ore deposit located in the Kurskaya region, Russian Federation, expiring in 2026. The carrying value of this license was USD 23 million as of March 31, 2008 and December 31, 2007. As of March 31, 2008, construction of mining facilities at the Prioskolskoe iron ore deposit was in process.

In January 2007, the Group acquired mineral licenses for USD 20 million as a result of the acquisition of LLC Bakalskoe Rudoupravlenie (refer to Note 12, (b)).

Depreciation expense for the three months ended March 31, 2008 and 2007 amounted to USD 63 million and USD 46 million, respectively.

Management did not identify any indicators of impairment relating to the Group's investments in long-lived assets during the three months ended March 31, 2008 and 2007.

6. INVESTMENTS IN AFFILIATES

The Group's equity method investments in affiliates as of March 31, 2008 and December 31, 2007 comprised the following:

		Investment carrying value		Ownership and voting interest, %	
Affiliate	**Registered in**	**March 31, 2008**	**December 31, 2007**	**March 31, 2008**	**December 31, 2007**
Carrying value of investments					
Onarbay Enterprises Ltd	Cyprus	237	-	50%	-
CJSC Kazankovskaya Mine	Russia	27	26	50%	50%
LLC MMK Trans	Russia	7	4	50%	50%
Loans provided to affiliates					
CJSC Kazankovskaya Mine	Russia	48	46		
		319	**76**		

As of March 31, 2008 and December 31, 2007, the Group provided CJSC Kazankovskaya Mine with a total of USD 48 million and USD 46 million in unsecured RUB-denominated loans, respectively, with maturity in December 2013. These loans bear interest at 10% per annum. As of March 31, 2008 and December 31, 2007, the outstanding amount of loans provided included accrued interest of USD 9 million and USD 8 million, respectively.

In March 2008, the Group acquired a 50% share in Onarbay Enterprises Ltd, Cyprus, which holds an 82.6% ownership interest in OJSC Belon, a coal-producer, located in the Russian Federation, for a total cash consideration of USD 234 million.

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

	Type of interest rate	**Annual interest rate (actual as of March 31, 2008)**	**March 31, 2008**	**December 31, 2007**
Short-term borrowings:				
Secured loans, USD	Floating	4%	631	495
Secured loans, EUR	Floating	4%	33	62
Secured loans, RUB	Fixed	7%	131	125
Unsecured loans, USD	Floating	5%	204	-
Unsecured loans, RUB	Floating	7%	90	12
Unsecured loans, RUB	Fixed	9%	5	16
			1,094	710
Current portion of long-term debt:				
Unsecured corporate bonds, USD	Fixed	9%	310	303
Secured loans, RUB	Fixed	14%	1	1
Unsecured loans, USD	Floating	3%	122	118
Unsecured loans, RUB	Floating	8%	14	12
Unsecured loans, RUB	Fixed	9%	55	38
Unsecured loans, USD	Fixed	5%	30	4
Unsecured loans, EUR	Fixed	6%	3	3
			535	479
			1,629	**1,189**

The weighted average interest rate of the RUB-denominated short-term borrowings as of March 31, 2008 and December 31, 2007 was 7% and 8%, respectively. The weighted average interest rate of the USD-denominated short-term borrowings as of March 31, 2008 and December 31, 2007 was 5% and 7%, respectively. The weighted average interest rate of the EUR-denominated short-term borrowings as of March 31, 2008 and December 31, 2007 was 4% and 6%, respectively.

As of March 31, 2008 and December 31, 2007, short-term borrowings were secured by the Group's property, plant and equipment with a net carrying amount of USD 3 million and USD 2 million, respectively, and inventory of USD 7 million and USD 6 million, respectively.

8. LONG-TERM DEBT, NET OF CURRENT PORTION

	Type of interest rate	Annual interest rate (actual as of March 31, 2008)	March 31, 2008	December 31, 2007
Secured loans, RUB	Fixed	12%	5	5
Unsecured loans, USD	Floating	3%	110	145
Unsecured loans, USD	Fixed	7%	29	13
Unsecured loans, RUB	Fixed	10%	30	22
Unsecured loans, EUR	Fixed	6%	5	5
Unsecured loans, RUB	Floating	8%	8	10
			187	**200**

Credit facilities

The most significant bank financing comprised credit line facilities from certain Russian and foreign banks. As of March 31, 2008 and December 31, 2007, the total unused element of all credit facilities was USD 55 million and USD 94 million, respectively.

The information provided below refers to total long-term debt, including its current portion, identified in Note 7.

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. 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, 2008 and 2007, interest expenses on these notes amounted to USD 6 million. The notes and outstanding interest payable are due to be repaid in October, 2008.

Loans

During the first quarter of 2008, foreign bank provided USD-denominated loan, bearing interest at 5.75% per annum with maturity in December 2011. The commitment fee on this loan is 0.1% per annum on the undrawn facility. As of March 31, 2008, the outstanding balance of this loan was USD 16 million.

In 2006, foreign banks provided USD-denominated loans, bearing interest at LIBOR+1.00% (3.68% as of March 31, 2008) per annum with maturity in June 2009. As of March 31, 2008 and December 31, 2007, the outstanding balance was USD 86 million and USD 108 million, respectively.

In 2005, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.25% (2.86% as of March 31, 2008), LIBOR+0.30% (2.91% as of March 31, 2008) and 4.05% per annum, repayable from 2009 to 2011. The commitment fees on these loans are from 0.07% to 0.08% per annum on the undrawn facilities. As of March 31, 2008 and December 31, 2007, the outstanding balance of these loans was USD 65 million and USD 67 million, respectively.

In 2004, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.18% (2.80% as of March 31, 2008) and LIBOR+0.25% (2.86% as of March 31, 2008) per annum, repayable from 2010 to 2011. The commitment fees on these loans are from 0.08% to 0.10% per annum on the undrawn facilities. As of March 31, 2008 and December 31, 2007, the outstanding balance of these loans was USD 71 million and USD 81 million, respectively.

In 2003, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.30% (2.91% as of March 31, 2008) and LIBOR+0.45% (3.06% as of March 31, 2008) per annum, repayable from 2008 to 2011. The commitment fees on these loans are from 0.10% to 0.20% per annum on the undrawn facilities. As of March 31, 2008 and December 31, 2007, the outstanding balance of these loans was USD 20 million and USD 25 million, respectively.

The Group also has RUB-denominated loans, provided by Russian banks, bearing interest rate from 5.9% to 13.91% per annum, repayable from 2008 to 2012. As of March 31, 2008 and December 31, 2007, the outstanding balance of these loans was USD 112 million and USD 88 million, respectively.

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

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

As of March 31, 2008 and December 31, 2007, the Group was in compliance with its debt covenants.

As of March 31, 2008 and December 31, 2007, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 4 million and USD 1 million, respectively, and inventory of USD 2 million and USD 2 million, respectively.

Debt repayment schedule

Year ended March 31,	
2009 (presented as current portion of long-term debt, Note 7)	535
2010	98
2011	62
2012	21
2013 and thereafter	6
	722

9. EMPLOYEE BENEFITS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 27 million and USD 20 million for the three months ended March 31, 2008 and 2007, 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 representation 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, 2008 and 2007, the maximum monthly contributions by the Group for each employee were RUB 40,000 (USD 1,701) and RUB 6,000 (USD 228), respectively. The Group's total contributions to the fund amounted to USD 1.7 million and USD 0.8 million for the three months ended March 31, 2008 and 2007, 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, employees retiring after that date are not allowed to participate in the plan. Pensions from this defined benefit plan are administered by the independent charity fund BOF Metallurg.

Entitled employees receive lifetime pension payments, which vary from RUB 300 (USD 12.36) to RUB 540 (USD 22.25) per month depending on the employee's actual years of service and qualifications.

For the three months ended March 31, 2008 and 2007, the Group made monthly payments to the fund of RUB 466 (USD 19.22) and RUB 388 (USD 14.77), respectively, per fund member, which were then distributed to the individual members.

As of March 31, 2008 and December 31, 2007, the principal actuarial assumptions used in determining the projected benefit obligations and net periodic pension expense were as follows:

	March 31, 2008	**December 31, 2007**
Discount rate	9.1%	9.0%
Future pension benefit increases	9.1%	8.4%
Average life expectancy of members from date of retirement	9.7	10.1

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

	Three months ended March 31,	
	2008	**2007**
Projected benefit obligations at beginning of the period	37	30
Interest cost	1	1
Actuarial gains	(1)	(2)
Benefit payments during the period	(1)	(1)
Currency translation adjustment	1	-
Unfunded status of the plan at end of the period	**37**	**28**

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, 2008 and December 31, 2007 were as follows:

	March 31, 2008	**December 31, 2007**
Accumulated benefit obligations	**37**	**37**

The components of the net periodic benefit costs for the three months ended March 31, 2008 and 2007 were as follows:

	Three months ended March 31,	
	2008	**2007**
Interest cost	1	1
Actuarial gains	(1)	(2)
	-	**(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,	
2009	4
2010	4
2011	3
2012	3
2013	3
2014-2018	10
Thereafter	10
	37

10. SHAREHOLDERS' EQUITY

Common stock

	March 31, 2008	**December 31, 2007**
Issued and fully paid common shares with a par value of RUB 1 each (in thousands)	**11,174,330**	**11,174,330**

Treasury stock

As of March 31, 2008 and December 31, 2007, the Group held 4,954 thousand and 4,457 thousand, respectively, issued common shares of the Parent Company as treasury stock.

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 RUB 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.

11. 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, 2008 and 2007 was as follows:

	Three months ended March 31,	
	2008	**2007**
Net income applicable to common stock	271	350
Weighted average number of common shares outstanding (in thousands):		
Basic and diluted	11,169,625	10,363,581
Earnings per common share (USD):		
Basic and diluted	0.024	0.034

There were no dilutive securities issued as of March 31, 2008 and 2007.

12. ACQUISITIONS

(a) OJSC Bashmetalloptorg

In February 2008, the Group acquired an additional 10.02% share in OJSC Bashmetalloptorg, a subsidiary of the Group, for a cash consideration of USD 3 million. Following this acquisition the Group's shareholding in this company is 99.67%.

(b) LLC Bakalskoe Rudoupravlenie

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

This acquisition was accounted for using the purchase method. 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. The purchase price allocation for the acquisition is 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**

(c) LLC UK RFTs-Kapital

On January 9, 2007, the Group acquired a 100% stake in LLC UK RFTs-Kapital, an investment company located in the Russian Federation, 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.

13. 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, 2008, the estimated fair value of financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable, approximates their carrying value due to the short-term nature of these instruments. As of March 31, 2008, USD 300 million of corporate bonds due in 2008 have a fair value of 101.55% or USD 305 million. The fair value of other fixed-rate debt including capital lease obligations and floating-rate debt approximates its carrying value.

For the three months ended March 31, 2008 and 2007, no derivatives were designated as hedges. A net gain of USD 2.3 million and USD 0.2 million, respectively, relating to a change in the fair value of derivative instruments was included in net foreign exchange gain in the condensed consolidated interim statement of operations and comprehensive income.

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and from movements in interest rates and foreign exchange rates. 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 disclosed in Note 16.

14. 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.

Issuance of guarantees in favor of related parties is disclosed in Note 16.

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 metal from third parties and Group entities, reprocesses it and sells reprocessed scrap metal 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.

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, Russian Federation. The Group provides 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.

OJSC Belon

OJSC Belon, the Group's affiliate, a coal-producer, located in the Russian Federation, supplies coal to the Group.

	Three months ended March 31,	
Transactions	**2008**	**2007**
Revenue		
CJSC Profit	93	33
LLC MEK	1	-
Total	94	33
Purchases		
CJSC Profit	386	249
LLC MEK	39	-
OJSC Belon	20	-
LLC MMK Trans	7	4
Total	452	253
Loans repaid		
CJSC Profit	58	-
Bank charges		
OJSC CUB	2	1

Transactions	Three months ended March 31, 2008	2007
Bank loans and overdrafts obtained		
OJSC CUB	13	22
Bank loans and overdrafts repaid		
OJSC CUB	16	21
Insurance payments		
OJSC SKM	5	7
Lease payments		
CJSC SKM-Invest	5	5

Balances	March 31, 2008	December 31, 2007
Cash and cash equivalents		
OJSC CUB	81	115
Bank loans and overdraft facilities		
OJSC CUB	6	8
Loans provided		
CJSC Profit	20	78
CJSC Kazankovskaya Mine	48	46
Total	68	124
Accounts receivable		
LLC MMK Trans	4	6
CJSC Profit	2	1
Total	6	7
Accounts payable		
OJSC Belon	12	-
OJSC SKM	7	2
CJSC Profit	4	8
LLC MMK Trans	3	3
Total	26	13
Lease payable		
CJSC SKM-Invest	21	22

15. COMMITMENTS

In the course of carrying out its operations and other activities the Group enters into various agreements, which requires the Group to invest in or provide financing to specific projects or undertakings. In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses for the Group.

As of December 31, 2007, the Group executed non-binding purchase agreements of approximately USD 16,689 million to acquire in future periods through 2008 – 2017 property, plant and equipment, coking coal, zinc, aluminum, iron ore and natural gas. As of March 31, 2008, the Group executed non-binding purchase agreements of approximately USD 19,843 million to acquire in future periods through 2008 – 2017 property, plant and equipment, coking coal, zinc, aluminum, iron ore and natural gas. 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.

In 2007, the Group executed a non-binding framework purchase agreement with its related party, CJSC Profit, to acquire in future periods through 2007 – 2011 metal scrap. The volume and prices are defined on a monthly basis.

In the past the Group has transferred social assets to local municipal authorities. The Group’s management expects that the Group will continue to partly fund those social operations in the foreseeable future. These costs are recognized in the consolidated statement of operations and comprehensive income as incurred.

Operating leases

The land in the Russian Federation on which the Group’s production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amounts of land tax for the three months ended March 31, 2008 and 2007 were approximately USD 6 million and USD 6 million, respectively.

The Group leases land through operating lease agreements, which expire in various years through 2054. Future minimum lease payments due under non-cancellable operating lease agreements as of March 31, 2008 were as follows:

Due in one year	2
Due in the second year	1
Due thereafter	5
	8

16. CONTINGENCIES

Issued guarantees

As of March 31, 2008 and December 31, 2007, 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, 2008	**December 31, 2007**
Non-current		
Related parties	294	145
Third parties	75	76
	369	**221**
Current		
Related parties	208	40
Third parties	-	8
	208	**48**
Total	**577**	**269**

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, 2008 and December 31, 2007, the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

Litigation

As of March 31, 2008 and December 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, there were no material unresolved adverse claims or other matters.

Russian business environment

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Stability and success of the Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

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 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 of 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.

17. SUBSEQUENT EVENTS

On April 18, 2008, a coupon of USD 12 million was paid to bond holders (Note 8).

On April 25, 2008, the Parent Company declared a final dividend of RUB 0.502 (USD 0.021) per common share in respect of the year ended December 31, 2007 representing a total dividend of USD 239 million. Of this total, USD 0.1 million was attributable to Group entities.