Open Joint Stock Company
Magnitogorsk Iron & Steel Works
and subsidiaries

Condensed consolidated interim financial statements

for the six months ended 30 June 2005

Contents

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Independent Accountants' Review Report

To the Board of Directors of
Open Joint Stock Company Magnitogorsk Iron & Steel Works

We have reviewed the accompanying condensed consolidated interim balance sheet of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as of 30 June 2005 and the related condensed consolidated interim statements of income for the 3 months and 6 months then ended, and related changes in equity and cash flows for the 6 months then ended. This interim consolidated financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

KPMG Limited
21 September 2005

Condensed consolidated interim balance sheet

As of 30 June 2005 *In millions of US dollars*	Note	30 June 2005 (unaudited)	31 December 2004
Assets			
Property, plant and equipment	5	2,455	2,262
Intangible assets		21	(13)
Investments in associates	6	36	7
Other investments		1	1
Bank deposits		100	103
Other non-current assets		5	5
Total non-current assets		2,618	2,365
Inventories		567	455
Trade and other receivables		861	772
Other investments		8	53
Cash and cash equivalents		1,052	1,884
Bank deposits		202	209
Total current assets		2,690	3,373
Total assets		5,308	5,738
Equity			
Share capital		363	363
Treasury shares	7	(50)	(30)
Additional paid in capital		247	247
Asset revaluation reserve		86	95
Retained earnings		3,213	3,183
Total equity attributable to equity holders of the parent		3,859	3,858
Minority interest		12	12
Total equity		3,871	3,870
Liabilities			
Loans and borrowings	8	498	388
Employee benefits		19	23
Deferred tax liabilities		188	205
Other non-current liabilities		1	1
Total non-current liabilities		706	617
Bank overdrafts		3	-
Loans and borrowings	8	239	847
Trade and other payables		489	404
Total current liabilities		731	1,251
Total liabilities		1,437	1,868
Total equity and liabilities		5,308	5,738

The condensed consolidated interim balance sheet is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 7 to 12.

Condensed consolidated interim income statement

For the six months ended 30 June 2005		**Three months ended 30 June**		**Six months ended 30 June**	
In millions of US dollars	**Note**	**2005** (Unaudited)	**2004** (Unaudited)	**2005** (Unaudited)	**2004** (Unaudited)
Revenues		1,397	1,298	2,695	2,166
Cost of sales		(885)	(760)	(1,744)	(1,291)
Gross profit		512	538	951	875
Distribution expenses		(53)	(43)	(84)	(75)
General and administrative expenses		(81)	(62)	(149)	(118)
Social costs		(9)	(8)	(17)	(18)
Other operating income /(expenses), net		(6)	3	-	11
Operating profit before financing costs		363	428	701	675
Financial income		24	14	55	37
Financial expenses		(59)	(30)	(83)	(25)
Net financing income/(expenses)	4	(35)	(16)	(28)	12
Share of profit / (loss) of associates		(1)	1	(2)	1
Profit before tax		327	413	671	688
Income tax expense		(80)	(93)	(168)	(164)
Profit for the period		247	320	503	524
Attributable to:					
Equity holders of the parent		247	319	504	524
Minority interest		-	1	(1)	-
Profit for the period		247	320	503	524

The condensed consolidated interim income statement is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 7 to 12.

Condensed consolidated interim statement of cash flows

For the six months ended 30 June 2005 *In millions of US dollars*	Six months ended 30 June **2005** (Unaudited)	 **2004** (Unaudited)
Operating activities		
Profit before tax and minority interest	671	688
Adjustments for:		
Depreciation and amortisation	116	104
Loss on disposal of property, plant and equipment	2	14
Share of loss / (profit) from associates	2	(1)
Gain on disposal of investments	(6)	-
Finance lease expense	4	2
Foreign exchange loss / (gain)	4	(8)
Interest expense	36	25
Operating profit before changes in working capital and provisions	829	824
Increase in inventories	(112)	(38)
Increase in trade and other receivables	(89)	(116)
Increase in trade and other payables	62	48
Cash flows from operations before taxes and interest paid	690	718
Income taxes paid	(194)	(143)
Interest paid	(42)	(27)
Cash flows from operating activities	454	548
Investing activities		
Proceeds from disposal of property, plant and equipment	7	5
Acquisition of investments in associates	(30)	-
Acquisition of property, plant and equipment	(300)	(184)
Acquisition of intangible assets	(8)	(5)
Acquisition of subsidiaries less cash acquired	-	(2)
Net proceeds/(acquisition) of other investments	51	(70)
Cash flows to investing activities	(280)	(256)
Financing activities		
Proceeds from loans and borrowings	494	78
Repayment of loans and borrowings	(985)	(44)
Proceeds from the re-issuance of treasury shares	-	305
Acquisition of treasury shares	(20)	(15)
Payments made under finance leases	(15)	(7)
Dividends paid	(483)	(6)
Cash flows (to) / from financing activities	(1,009)	311
Net (decrease)/increase in cash and cash equivalents	(835)	603
Cash and cash equivalents at the beginning of the period	1,884	777
Cash and cash equivalents at the end of the period	1,049	1,380

Cash and cash equivalents include bank overdrafts of USD 3 million (30 June 2004: USD 33 million).

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 7 to 12.

Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2005	Attributable to shareholders of the parent									Minority interest	Total equity
In millions of US dollars	Ordinary shares	Preference shares	Convertible preference shares	Ordinary treasury shares	Preference treasury shares	Additional paid in capital	Asset revaluation reserve	Retained earnings	Total		
Balance at 1 January 2004	272	91	-	(19)	-	39	113	1,962	2,458	19	2,477
Acquisition of treasury shares	-	-	-	(5)	(10)	-	-	-	(15)	-	(15)
Re-issuance of treasury shares	-	-	-	20	7	208	-	-	235	-	235
Amortisation of asset revaluation reserve	-	-	-	-	-	-	(9)	9	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	(11)	(11)
Dividends	-	-	-	-	-	-	-	(14)	(14)	-	(14)
Net profit for the period	-	-	-	-	-	-	-	524	524	-	524
Balance at 30 June 2004	272	91	-	(4)	(3)	247	104	2,481	3,188	8	3,196
Balance at 1 January 2005	272	91	-	(11)	(19)	247	95	3,183	3,858	12	3,870
Changes in accounting policy (Refer note 1(c))	-	-	-	-	-	-	-	30	30	-	30
Restated balance	272	91	-	(11)	(19)	247	95	3,213	3,888	12	3,900
Share swap	-	(91)	91	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	(5)	(15)	-	-	-	(20)	-	(20)
Amortisation of asset revaluation reserve	-	-	-	-	-	-	(9)	9	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	1	1
Dividends	-	-	-	-	-	-	-	(513)	(513)	-	(513)
Net profit for the period	-	-	-	-	-	-	-	504	504	(1)	503
Balance at 30 June 2005	272	-	91	(16)	(34)	247	86	3,213	3,859	12	3,871

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 7 to 12.

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The condensed consolidated interim financial statements include the Open Joint Stock Company Magnitogorsk Iron & Steel Works ("MMK" or "the Parent Company") and its 65 subsidiaries ("the Group").

The condensed consolidated financial statements were authorised for issuance on 21 September 2005.

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the last issued consolidated financial statements as at and for the year ended 31 December 2004.

(b) Basis of preparation

The financial statements are presented in US dollars, rounded to the nearest million.

Accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2004 with the exception of changes in accounting polices disclosed in note 1(c) below.

The preparation of interim financial statements in conformity with IAS 34 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

(c) Changes in accounting policies

(i) Negative goodwill

In accordance with the transitional provisions of IFRS 3 *Business Combinations*, the carrying amount of negative goodwill at 1 January 2005 arising from business combinations for which the agreement date was before 31 March 2004 has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

2. Seasonal Operations

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

3. Segmental information

The Group predominately produces iron and steel products, which are primarily sold to traders unrelated to the Group for sale on the world steel market. Geographically, all significant assets, production and management/administration facilities are located in Magnitogorsk. There have been no material changes in the mix of products or the regions in which the traders sold the Group's products as compared to the year ended 31 December 2004.

Notes to the condensed consolidated interim financial statements

4. Net financing income/(expenses)

	Three months ended 30 June		Six months ended 30 June	
In millions of US dollars	**2005**	**2004**	**2005**	**2004**
Interest expense	(17)	(13)	(40)	(25)
Interest income	24	14	55	27
Net foreign exchange (loss)/gain	(42)	(17)	(43)	10
	(35)	(16)	(28)	12

5. Property, plant and equipment

(a) Acquisitions and disposals

During the six months ended 30 June 2005 the Group acquired property, plant and equipment with a cost of USD 314 million (6 months ended 30 June 2004: USD 203 million). Property, plant and equipment with a net book value of USD 9 million was disposed of during the six months ended 30 June 2005 (6 months ended 30 June 2004: USD 19 million), resulting in a loss on disposal of USD 2 million (6 months ended 30 June 2004 a loss on disposal: USD 14 million).

(b) Capital commitments

As of 30 June 2005 the Group is committed to capital expenditure of approximately USD 455 million (31 December 2004: USD 495 million).

6. Investments in associates

The Group has the following significant investments in associates:

	Country of incorporation	Ownership		Voting interest	
		30 June 2005	**31 December 2004**	**30 June 2005**	**31 December 2004**
MMK Trans	Russia	50%	50%	50%	50%
Commercial Port of Vladivostok	Russia	26%	-	26%	-
Kazankovskaya Mine	Russia	-	-	50%	-

Notes to the condensed consolidated interim financial statements

7. Capital and reserves

(a) Share capital

During the six months ended 30 June 2005 the Parent Company converted its existing preference shares to a new class of preference shares which are convertible to ordinary shares at 1:1. The number of preference shares convertible to ordinary shares issued as a result of the conversion of the old class of preference shares was 2,657,556,000.

Holders of preference shares which are convertible to ordinary shares are entitled to receive a fixed dividend of 10% of profit after tax and other deductions calculated in accordance with Russian legislation. The holders of convertible preference shares have similar rights to the holders of the old preference shares and the amount of the preference dividend should not be less than the amount of the ordinary dividend declared at the annual shareholders' meeting.

Conversion of the convertible preference shares to ordinary shares must be initiated by the Board of Directors within 15 days of their registration.

Subsequent events

Subsequent to the balance sheet date the Board of Directors approved a resolution recommending the conversion of the Parent Company's convertible preference shares to ordinary shares.

(b) Own shares acquired (treasury shares)

During the six months ended 30 June 2005 the Group acquired 8,522 thousand ordinary and 35,861 thousand preference shares in the Parent Company and recorded increases in treasury shares of USD 5 million and USD 15 million, respectively.

(c) Dividends

The following ordinary and preference dividends were approved at the annual shareholders meeting on 22 April 2005:

	Six months ended 30 June	
In millions of US dollars	**2005**	**2004**
RUR 1.34 per qualifying ordinary share (2004: RUR 0.027)	385	7
RUR 1.34 per preference share (2004: RUR 0.081)	128	7
	513	14

During the six months ended 30 June 2005 the Parent Company paid USD 372 million and USD 111 million of the approved ordinary and preference dividends, respectively.

Notes to the condensed consolidated interim financial statements

Subsequent events

Subsequent to the balance sheet date the following dividends were recommended by the directors for the six months ended 30 June 2005, but have not been approved and are therefore not provided for:

In millions of US dollars	**2005**
RUR 0.655 per qualifying ordinary share	182
RUR 0.655 per preference share	61
	243

8. Interest-bearing loans and borrowings

(a) Loans and borrowings obtained and repaid

During the six months ended 30 June 2005 the Group settled an unsecured euro denominated bond issue of USD 148 million and settled the amounts outstanding under an unsecured Russian bond issue of USD 28 million.

During the six months ended 30 June 2005 the Group also repaid secured and unsecured rouble denominated short-term loans of USD 144 million and USD 72 million, respectively, that existed at 31 December 2004, and repaid unsecured rouble denominated long-term borrowings of USD 285 million. Pledged property, plant and equipment with the carrying value of USD 481 million was released on the repayment of the secured loans and borrowings.

The Group obtained an unsecured long-term borrowing of USD 51 million, which is due to mature in 2010, at an effective interest rate of is 3.96%. The Group has also borrowed USD 94 million under a credit facility at an effective interest rate of 4.7%, which is secured by specific export contracts.

Subsequent events

On 29 July 2005 the Group fully repaid unsecured rouble denominated long-term borrowings of USD 56 million that existed at 30 June 2005.

(b) Unused credit facilities

At the balance sheet date the Group had available unused credit facilities totaling USD 175 million (31 December 2004: USD 92 million).

9. Acquisition of subsidiaries

Subsequent events

After the reporting date the Group acquired 76% effective ownership of the voting rights in OAO Shelkovsky Zavod Spetzmontazhizdelie for USD 7 million.

Notes to the condensed consolidated interim financial statements

10. Related parties

(a) Transactions with key management personnel

Key management personnel receive compensation only in the form of short term employee benefits. For the six months ended 30 June 2005 key management personnel received total compensation of USD 5 million.

(b) Transactions with enterprises in which the Directors had a financial interest

	Three months ended 30 June		Six months ended 30 June	
Transactions	**2005**	**2004**	**2005**	**2004**
Loans and overdrafts obtained	11	5	19	17
Loans and overdrafts repaid	8	-	12	23
Bank charges	3	2	6	5
Purchases of scrap	78	61	159	85
Domestic sales	13	24	36	34
Purchase of promissory notes	-	-	-	2
Lease payments	3	4	5	8
Insurance payments	8	11	14	15
Loans provided	-	5	27	9
Loans repaid	27	-	27	-

Balances outstanding	**30 June 2005**	**31 December 2004**
Cash and cash equivalents	33	85
Loans and overdraft facilities	12	5
Promissory notes receivable	-	30
Loans and borrowings	-	24
Trade payables	-	1
Trade receivable	2	-
Advances paid	-	21
Insurance payables	13	-
Loans receivable	-	-
Lease payments outstanding	23	19

(c) Transactions with associates of the Group

	Three months ended 30 June		Six months ended 30 June	
Transactions	**2005**	**2004**	**2005**	**2004**
Sales of steel	-	6	-	14
Loans provided	7	-	7	-
Purchases of freight services	3	7	9	10
Domestic purchases	4	3	7	6

Notes to the condensed consolidated interim financial statements

Balances outstanding	**30 June 2005**	**31 December 2004**
Trade payables	1	-
Advances paid	5	2

11. Concentrations of risk

(a) Significant customer/supplier

During the six months ended 30 June 2005, the Group made sales of USD 572 million (6 months ended 30 June 2004: USD 526 million) to MMK Metal Limited, a customer which trades in MMK's steel products on the export market. These sales represented 21% (6 months ended 30 June 2004: 24%) of the Group's total revenue. In addition, the Group purchased iron ore concentrate and pellets amounting to USD 51 million (6 months ended 30 June 2004: USD 310 million) from MMK Metal Limited.

As of the balance sheet date MMK Metal Limited owed the Group USD 143 million (31 December 2004: USD 335 million).

(b) Significant deposits on account

As of the balance sheet date the Group had cash, cash equivalents and bank deposits amounting to USD 1,199 million (31 December 2004: USD 1,977 million) invested in a major Russian bank.