Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended 30 June 2012

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report on review of the unaudited condensed consolidated interim financial statements set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the unaudited condensed consolidated interim financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group").

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2012, and the results of its operations for the three months and the six months then ended and, changes in equity and cash flows for the six months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The unaudited condensed consolidated interim financial statements as at 30 June 2012 and for the six months then ended were approved on 27 August 2012 by:

B. A. Dubrovsky
General Director

M. A. Zhemchueva
Chief Accountant

27 August 2012
Magnitogorsk, Russia

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

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Independent Auditors' Report on review of Condensed Consolidated Interim Financial Statements

To the shareholders of OJSC Magnitogorsk Iron & Steel Works:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") as at 30 June 2012, and the related condensed consolidated interim statements of comprehensive income for the three- and six-month periods ended 30 June 2012, and the related condensed consolidated interim statements of changes in equity and cash flows for the six-month period ended 30 June 2012 (the "condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements as at 30 June 2012 and for the three- and six-month periods then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG.

ZAO KPMG

27 August 2012

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS AND FOR THE SIX MONTHS ENDED 30 JUNE 2012
(In millions of U.S. Dollars, except per share data)

		Three months ended 30 June		Six months ended 30 June	
	Notes	**2012**	**2011**	**2012**	**2011**
REVENUE	5	2,516	2,417	4,941	4,633
COST OF SALES		(2,101)	(1,971)	(4,200)	(3,746)
GROSS PROFIT		**415**	**446**	**741**	**887**
General and administrative expenses		(158)	(140)	(294)	(284)
Selling and distribution expenses		(145)	(132)	(291)	(261)
Other operating expenses, net		(17)	(11)	(28)	(24)
OPERATING PROFIT		**95**	**163**	**128**	**318**
Share of results of associates		13	3	15	8
Finance income		3	2	7	6
Finance costs		(58)	(53)	(119)	(73)
Foreign exchange (loss)/gain, net		(76)	(25)	13	49
Impairment losses on property, plant and equipment		-	(20)	-	(20)
Change in net assets attributable to non-controlling interest		4	-	5	4
Other income		-	2	4	5
Other expenses		(30)	(49)	(81)	(106)
(LOSS)/PROFIT BEFORE INCOME TAX		**(49)**	**23**	**(28)**	**191**
INCOME TAX		-	(10)	(7)	(44)
(LOSS)/PROFIT FOR THE PERIOD		**(49)**	**13**	**(35)**	**147**
OTHER COMPREHENSIVE (LOSSES)/INCOME					
Net change in fair value of available-for-sale investments		(118)	3	122	(76)
Income tax related to net change in fair value of available-for sale investments		-	(1)	-	15
Translation of foreign operations		129	58	8	124
Effect of translation to presentation currency		(1,154)	140	(191)	898
OTHER COMPREHENSIVE (LOSSES)/INCOME FOR THE PERIOD, NET OF TAX		**(1,143)**	**200**	**(61)**	**961**
TOTAL COMPREHENSIVE (LOSSES)/INCOME FOR THE PERIOD		**(1,192)**	**213**	**(96)**	**1,108**
(Loss)/profit attributable to:					
Shareholders of the Parent Company		(47)	10	(32)	154
Non-controlling interests		(2)	3	(3)	(7)
		(49)	**13**	**(35)**	**147**
Total comprehensive (losses)/income attributable to:					
Shareholders of the Parent Company		(1,190)	210	(93)	1,049
Non-controlling interests		(2)	3	(3)	59
		(1,192)	**213**	**(96)**	**1,108**
BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE (U.S. Dollars)		(0.004)	0.001	(0.003)	0.013
Weighted average number of ordinary shares outstanding (in thousands)		11,009,766	11,008,259	11,008,844	11,007,936

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012
(In millions of U.S. Dollars)

	Notes	30 June 2012	31 December 2011
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	11,375	11,792
Goodwill		269	274
Other intangible assets		36	29
Investments in securities and other financial assets	9	906	785
Investments in associates	7	-	31
Deferred tax assets		134	110
Other non-current assets		8	8
Total non-current assets		**12,728**	**13,029**
CURRENT ASSETS:			
Inventories		1,523	1,776
Trade and other receivables		709	617
Investments in securities and other financial assets	9	47	47
Income tax receivable		92	83
Value added tax recoverable		241	304
Cash and cash equivalents	10	196	424
Assets classified as held for sale		15	15
Total current assets		**2,823**	**3,266**
TOTAL ASSETS		**15,551**	**16,295**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		386	386
Treasury shares		(172)	(176)
Share premium		1,109	1,110
Investments revaluation reserve		661	539
Translation reserve		(2,908)	(2,725)
Retained earnings		10,123	10,155
Equity attributable to shareholders of the Parent Company		9,199	9,289
Non-controlling interests		156	159
Total equity		**9,355**	**9,448**
NON-CURRENT LIABILITIES:			
Long-term borrowings	11	2,417	3,067
Obligations under finance leases		1	1
Retirement benefit obligations		26	27
Site restoration provision		45	44
Deferred tax liabilities		1,168	1,157
Total non-current liabilities		**3,657**	**4,296**
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	12	1,260	1,328
Current portion of obligations under finance leases		3	6
Current portion of retirement benefit obligations		4	3
Trade and other payables		1,257	1,194
Net assets attributable to minority participants		15	20
Total current liabilities		**2,539**	**2,551**
TOTAL EQUITY AND LIABILITIES		**15,551**	**16,295**

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012
(In millions of U.S. Dollars)

	Attributable to shareholders of the Parent Company								
	Share capital	**Treasury shares**	**Share premium**	**Investments revaluation reserve**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total Equity**
BALANCE AT 1 JANUARY 2011	**386**	**(176)**	**1,109**	**680**	**(2,294)**	**10,552**	**10,257**	**429**	**10,686**
Profit for the period	-	-	-	-	-	154	**154**	(7)	**147**
Other comprehensive income for the period, net of tax	-	-	-	(61)	956	-	**895**	66	**961**
Total comprehensive income for the period	-	-	-	(61)	956	154	**1,049**	59	**1,108**
Purchase of treasury shares	-	(13)	-	-	-	-	**(13)**	-	**(13)**
Issuance of ordinary shares from treasury shares	-	15	(1)	-	-	-	**14**	-	**14**
Decrease in non-controlling interests due to increase of Group's share in subsidiaries	-	-	-	-	-	(1)	**(1)**	1	**-**
Increase in non-controlling interests due to additional share issue by subsidiary	-	-	-	-	-	-	**-**	28	**28**
Dividends	-	-	-	-	-	(130)	**(130)**	(1)	**(131)**
Acquisition of non-controlling interest (Note 4)	-	-	-	-	-	(137)	**(137)**	(338)	**(475)**
BALANCE AT 30 JUNE 2011	**386**	**(174)**	**1,108**	**619**	**(1,338)**	**10,438**	**11,039**	**178**	**11,217**
BALANCE AT 1 JANUARY 2012	**386**	**(176)**	**1,110**	**539**	**(2,725)**	**10,155**	**9,289**	**159**	**9,448**
Loss for the period	-	-	-	-	-	(32)	**(32)**	(3)	**(35)**
Other comprehensive losses for the period, net of tax	-	-	-	122	(183)	-	**(61)**	-	**(61)**
Total comprehensive losses for the period	-	-	-	122	(183)	(32)	**(93)**	(3)	**(96)**
Issuance of ordinary shares from treasury shares	-	4	(1)	-	-	-	**3**	-	**3**
BALANCE AT 30 JUNE 2012	**386**	**(172)**	**1,109**	**661**	**(2,908)**	**10,123**	**9,199**	**156**	**9,355**

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(In millions of U.S. Dollars)

	Six months ended 30 June	
	2012	**2011**
OPERATING ACTIVITIES:		
(Loss)/profit for the period	(35)	147
Adjustments to profit for the period:		
Income tax	7	44
Depreciation and amortization	478	429
Impairment losses on property, plant and equipment	-	20
Finance costs	119	73
Loss on disposal of property, plant and equipment	41	28
Change in allowance for doubtful accounts receivable	(15)	11
Loss on revaluation and sale of trading securities	-	1
Change in inventory allowance and impairment	(10)	11
Finance income	(7)	(6)
Foreign exchange gain, net	(13)	(49)
Share of results of associates	(15)	(8)
Change in net assets attributable to non-controlling interest	(5)	(4)
	545	697
Movements in working capital		
Decrease in trade and other receivables	3	8
Decrease/(increase) in value added tax recoverable	63	(101)
Decrease/(increase) in inventories	249	(231)
Decrease in investments classified as trading securities	2	3
Increase in trade and other payables	115	163
Cash generated from operations	977	539
Interest paid	(101)	(91)
Income tax paid	(9)	(97)
Net cash from operating activities	**867**	**351**
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(365)	(709)
Purchase of intangible assets	(1)	(3)
Proceeds from sale of property, plant and equipment	2	10
Proceeds from sale of subsidiaries	-	7
Interest received	6	6
Loans provided to related party	(25)	-
Purchase of securities and other financial assets	-	(68)
Changes in letters of credit, net	-	8
Net cash used in investing activities	**(383)**	**(749)**

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012 (CONTINUED)
(In millions of U.S. Dollars)

	Six months ended 30 June	
	2012	**2011**
FINANCING ACTIVITIES:		
Proceeds from borrowings	951	1,223
Repayments of borrowings	(1,629)	(871)
Purchase of treasury shares	-	(13)
Proceeds from issuance of ordinary shares from treasury shares	3	14
Acquisition of non-controlling interest	-	(243)
Principal repayments of obligations under finance leases	(4)	(10)
Dividends paid to non-controlling interests	-	(1)
Proceeds from capital transactions of subsidiaries	-	28
Net decrease in bank overdrafts	-	(1)
Net cash (used in)/generated from financing activities	**(679)**	**126**
NET DECREASE IN CASH AND CASH EQUIVALENTS	(195)	(272)
CASH AND CASH EQUIVALENTS, beginning of period	424	515
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	(33)	166
CASH AND CASH EQUIVALENTS, end of period	**196**	**409**

The notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial statements.

1. GENERAL INFORMATION

OJSC Magnitogorsk Iron & Steel Works ("the Parent Company") is an open joint stock company as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatization program.

The Parent Company, together with its subsidiaries ("the Group"), is a producer of ferrous metal products. The Group's products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products. Since the acquisition of a controlling share in Belon Group, Russian coal producer, in October 2010, the Group is also engaged in coal mining and sale thereof.

As at 30 June 2012 the Parent Company's major shareholders were Mintha Holding Limited with a 42.40% ownership interest and Fulnek Enterprises Limited with a 41.01% ownership interest (31 December 2011: 44.80% and 41.01%, respectively).

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors.

The effective and nominal ownership holdings of the Group's principal subsidiaries at 30 June 2012 did not change from 31 December 2011.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 "Interim financial reporting" ("IAS 34"). The statement of financial position at 31 December 2011 has been derived from the statement of financial position included in the Group's consolidated financial statements at 31 December 2011. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The same accounting policies and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2011.

Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2011.

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

Basis of preparation

The condensed consolidated interim financial statements of the Group are prepared on the historical cost basis except for the market-to-market valuation of certain financial instruments which are reported in accordance with IAS 39 “Financial instruments: recognition and measurement”.

3. SEASONAL OPERATIONS

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

4. ACQUISITION OF NON-CONTROLLING INTEREST

During the year ended 31 December 2011, a subsidiary of the Parent Company, MMK Atakas Metalurji, issued additional ordinary shares for total nominal values of USD 56 million. These additional shares issued were purchased by the Group and minority shareholders in proportion to their existing ownership.

In September 2011 the Group finalized the acquisition of a non-controlling interest of 50% minus 1 share of MMK Atakas Metalurji for a consideration of USD 475 million, increasing the Group’s ownership interest to 100%. Thereafter the company was renamed to MMK Metalurji.

5. REVENUE

	Three months ended 30 June		Six months ended 30 June	
By product	**2012**	**2011**	**2012**	**2011**
Rolled steel	1,426	1,468	2,893	2,877
Galvanised steel	202	195	407	334
Assorted rolled products	256	181	477	347
Coal	7	22	28	61
Tin plated steel	48	47	95	98
Galvanised steel with polymeric coating	190	114	326	180
Wire, sling, bracing	79	25	146	93
Formed section	56	58	104	114
Coking production	44	55	83	101
Hardware products	46	39	76	79
Band	35	29	58	55
Slabs	-	15	6	21
Tubes	19	8	36	21
Scrap	6	25	15	34
Others	102	136	191	218
Total	**2,516**	**2,417**	**4,941**	**4,633**

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

	Three months ended 30 June		Six months ended 30 June	
By customer destination	**2012**	**2011**	**2012**	**2011**
Russian Federation and the CIS	72%	73%	71%	75%
Iran	5%	8%	6%	8%
Turkey	8%	5%	9%	5%
Italy	3%	4%	3%	3%
India	2%	1%	1%	-
Vietnam	1%	1%	2%	-
Others (countries each representing less than 2% of total net revenue)	9%	8%	8%	9%
Total	**100%**	**100%**	**100%**	**100%**

6. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (“CODM”) in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

In May 2011, the Group changed its management structure and internal organization, which resulted in a revision of its reportable segments. The Group has identified the General Director of the Parent Company as its CODM.

Based on the current management structure and internal reporting the Group has identified the following segments:

- *Steel segment (Russia)*, which includes Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk (Russian Federation);
- *Steel segment (Turkey)*, which includes MMK Metalurji involved in production of steel. The two sites of this segment are located in Iskenderun and Istanbul (Turkey).
- *Coal mining segment*, which includes OJSC Belon and its subsidiaries (“Belon Group”) involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo (Russian Federation).

Prior to the changes in management structure the Group reported two operating segments: steel and coal mining.

The profitability of the three operating segments is primarily measured by CODM based on Segment EBITDA. Segment EBITDA is determined as segment’s operating profit adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including the impairment of investments in associates. Since this term is not a standard measure in IFRS the Group’s definition of EBITDA may differ from that of other companies.

Inter-segment pricing is determined on a consistent basis using market benchmarks.

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

The following table presents measures of segment results for the three months ended 30 June 2012 and 30 June 2011:

	For three months ended 30 June									
	Steel (Russia)		**Steel (Turkey)**		**Coal mining**		**Eliminations**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue										
Sales to external customers	2,312	2,314	196	78	8	25	-	-	2,516	2,417
Inter-segment sales	17	56	39	11	98	134	(154)	(201)	-	-
Total revenue	**2,329**	**2,370**	**235**	**89**	**106**	**159**	**(154)**	**(201)**	**2,516**	**2,417**
Segment EBITDA	**373**	**359**	**(8)**	**(23)**	**5**	**44**	**(1)**	**-**	**369**	**380**
Depreciation and amortisation	(192)	(182)	(27)	(10)	(17)	(17)	-	-	(236)	(209)
Loss on disposal of property, plant and equipment	(22)	(3)	-	-	(3)	(2)	-	-	(25)	(5)
Share of results of associates	(13)	(3)	-	-	-	-	-	-	(13)	(3)
Operating profit per IFRS financial statements	**146**	**171**	**(35)**	**(33)**	**(15)**	**25**	**(1)**	**-**	**95**	**163**

The following table presents measures of segment results for the six months ended 30 June 2012 and 30 June 2011:

	For six months ended 30 June									
	Steel (Russia)		**Steel (Turkey)**		**Coal mining**		**Eliminations**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue										
Sales to external customers	4,513	4,456	399	114	29	63	-	-	4,941	4,633
Inter-segment sales	48	101	51	11	207	254	(306)	(366)	-	-
Total revenue	**4,561**	**4,557**	**450**	**125**	**236**	**317**	**(306)**	**(366)**	**4,941**	**4,633**
Segment EBITDA	**640**	**696**	**(26)**	**(27)**	**47**	**114**	**1**	**-**	**662**	**783**
Depreciation and amortisation	(389)	(374)	(55)	(20)	(34)	(35)	-	-	(478)	(429)
Loss on disposal of property, plant and equipment	(38)	(23)	-	-	(3)	(5)	-	-	(41)	(28)
Share of results of associates	(15)	(8)	-	-	-	-	-	-	(15)	(8)
Operating profit per IFRS financial statements	**198**	**291**	**(81)**	**(47)**	**10**	**74**	**1**	**-**	**128**	**318**

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

At 30 June 2012 and 31 December 2011, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	30 June 2012				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	14,476	2,017	878	(1,820)	15,551
Total liabilities	5,030	1,589	308	(731)	6,196

	31 December 2011				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	15,108	2,101	904	(1,818)	16,295
Total liabilities	5,643	1,597	326	(719)	6,847

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

7. INVESTMENTS IN ASSOCIATES

At 30 June 2012 and 31 December 2011, the Group's investments in associates comprised the following:

		Investment carrying amount		Ownership and voting interest, %	
Associate	**Registered in**	**2012**	**2011**	**2012**	**2011**
LLC MMK Trans	Russia	-	31	50%	50%
Total		**-**	**31**		

	2012	2011
Balance at the beginning of the year	**31**	**29**
Share of results of associates	15	14
Dividends	(48)	(9)
Effect of translation to presentation currency	2	(3)
Balance at the end of the period/year	**-**	**31**

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Trans-portation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
Gross book value							
At 1 January 2011	**3,775**	**8,121**	**266**	**206**	**308**	**2,309**	**14,985**
Additions	23	74	3	1	-	685	786
Transfers	252	853	6	5	-	(1,116)	-
Disposals	(12)	(52)	(3)	(1)	-	(5)	(73)
Disposals of subsidiaries	-	(1)	-	-	(8)	(1)	(10)
Reclassification to assets held for sale	-	-	-	-	-	(47)	(47)
Effect of translation to presentation currency	327	712	23	17	26	189	1,294
At 30 June 2011	**4,365**	**9,707**	**295**	**228**	**326**	**2,014**	**16,935**
Depreciation							
At 1 January 2011	**(672)**	**(1,909)**	**(97)**	**(56)**	**(25)**	**-**	**(2,759)**
Charge for the period	(68)	(326)	(14)	(10)	(11)	-	(429)
Disposals	4	(14)	2	1	-	-	(7)
Effect of translation to presentation currency	(58)	(170)	(9)	(5)	(1)	-	(243)
At 30 June 2011	**(794)**	**(2,419)**	**(118)**	**(70)**	**(37)**	**-**	**(3,438)**
Carrying amount							
At 01 January 2011	**3,103**	**6,212**	**169**	**150**	**283**	**2,309**	**12,226**
At 30 June 2011	**3,571**	**7,288**	**177**	**158**	**289**	**2,014**	**13,497**

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

	Land and buildings	Machinery and equipment	Trans-portation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
Gross book value							
At 1 January 2012	**4,186**	**8,782**	**272**	**206**	**305**	**1,453**	**15,204**
Additions	2	98	8	2	-	188	298
Transfers	22	200	7	2	-	(231)	-
Disposals	(6)	(90)	(3)	-	-	(7)	(106)
Effect of translation to presentation currency	(69)	(165)	(5)	(4)	(5)	(22)	(270)
At 30 June 2012	**4,135**	**8,825**	**279**	**206**	**300**	**1,381**	**15,126**
Depreciation							
At 1 January 2012	**(765)**	**(2,419)**	**(119)**	**(71)**	**(38)**	**-**	**(3,412)**
Charge for the period	(79)	(371)	(14)	(10)	(11)	-	(485)
Disposals	1	50	2	-	-	-	53
Effect of translation to presentation currency	19	65	3	3	3	-	93
At 30 June 2012	**(824)**	**(2,675)**	**(128)**	**(78)**	**(46)**	**-**	**(3,751)**
Carrying amount							
At January 2012	**3,421**	**6,363**	**153**	**135**	**267**	**1,453**	**11,792**
At 30 June 2012	**3,311**	**6,150**	**151**	**128**	**254**	**1,381**	**11,375**

During the six months ended 30 June 2012 the Group capitalized borrowing costs of USD 5 million (30 June 2011: USD 31 million).

At 30 June 2012 and 31 December 2011, property, plant and equipment with carrying amounts of USD 1,460 million and USD 1,520 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 11 and 12).

Capital commitments are disclosed in Note 14.

9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	30 June 2012	31 December 2011
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	775	675
Unlisted securities	8	9
Loans and receivables, at amortized cost		
Promissory notes receivable, bearing interest of 2.8% per annum	123	99
Long-term loans	-	2
Total non-current	**906**	**785**

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

	30 June 2012	31 December 2011
Current		
Held-to-maturity investments, at amortized cost		
Promissory notes receivable	1	1
Loans and receivables, at amortized cost		
Short-term loans	3	-
Financial assets, at fair value through profit or loss		
Trading equity securities	38	41
Trading debt securities	1	1
Share in mutual investment fund	4	4
Total current	**47**	**47**

Non-current listed equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and is unable to exercise significant influence. At 30 June 2012 and 31 December 2011, the revaluation reserve arising from unrealized holding gains on these securities was USD 661 million and USD 539 million, respectively, net of related income tax effect of USD nil million.

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

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

Net (loss)/ gain on revaluation and sale of trading securities for the six months ended 30 June 2012 and 2011 was USD nil million and USD (1) million, respectively. These results are included in other operating income in the unaudited condensed consolidated interim statement of comprehensive income.

10. CASH AND CASH EQUIVALENTS

	30 June 2012	31 December 2011
Cash in banks, USD	19	19
Cash in banks, RUB	61	35
Cash in banks, EUR	28	22
Cash in banks, CHF	2	4
Bank deposits, USD	50	103
Bank deposits, EUR	36	83
Bank deposits, TRY	-	11
Bank deposits, RUB	-	147
Total	**196**	**424**

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

11. LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at 30 June 2012	Annual interest rate, actual at 31 December 2011	30 June 2012	31 December 2011
Unsecured listed bonds, RUB	Fixed	8%	8%	580	679
Secured loans, USD	Floating	6%	5%	337	362
Secured loans, EUR	Fixed	7%	5%	279	337
Unsecured loans, USD	Floating	2%	2%	523	639
Unsecured loans, USD	Fixed	5%	5%	204	241
Unsecured loans, RUB	Fixed	7%	7%	142	416
Unsecured loans, EUR	Fixed	4%	4%	5	7
Unsecured loans, EUR	Floating	2%	3%	347	386
Total				**2,417**	**3,067**

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

Bonds

In February 2012, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 167 million at the date of issuance), bearing a semi-annual coupon rate of 8.19 % per annum, repayable in February 2015. A 1.5 year offer is provided for the issue.

In March 2011, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 175 million at the date of issuance), bearing a semi-annual coupon rate of 7.65 % per annum, repayable in February 2014.

Loans

The Group has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 30 June 2012 and 31 December 2011, the total unused element of all credit facilities was USD 1,143 million and USD 426 million, respectively.

At 30 June 2012 and 31 December 2011, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 1,444 million and USD 1,500 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 428 million and USD 504 million, respectively.

Debt repayment schedule

Year ended 30 June,	
2013 (presented as current portion of long-term borrowings, Note 12)	1,002
2014	1,041
2015	587
2016	291
2017 and thereafter	498
Total	**3,419**

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

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

	Type of interest rate	Annual interest rate, actual at 30 June 2012	Annual interest rate, actual at 31 December 2011	30 June 2012	31 December 2011
Short-term borrowings:					
Secured loans, USD	Floating	3%	2%	64	145
Secured loans, EUR	Floating	2%	3%	1	49
Unsecured loans, USD	Floating	3%	3%	193	193
Unsecured spot loan, TRY		-	-	-	1
				258	388
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	8%	7%	446	367
Secured loans, USD	Floating	6%	5%	143	109
Secured loans, EUR	Fixed	7%	5%	65	73
Unsecured loans, USD	Floating	1%	2%	149	172
Unsecured loans, EUR	Floating	2%	3%	82	85
Unsecured loans, RUB	Fixed	7%	7%	11	31
Unsecured loans, USD	Fixed	5%	5%	99	91
Unsecured loans, EUR	Fixed	4%	4%	3	3
Secured letter of credit, EUR	Floating	2%	3%	4	9
				1,002	940
Total				**1,260**	**1,328**

The weighted average interest rates of short-term borrowings at 30 June 2012 and 31 December 2011 were as follows:

	30 June 2012	31 December 2011
RUB-denominated	8%	7%
USD-denominated	3%	3%
EUR-denominated	4%	4%

At 30 June 2012 and 31 December 2011, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 16 million and USD 20 million, respectively.

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

	30 June 2012	31 December 2011
Due in:		
1 month	126	169
1-3 months	273	396
3 months to 1 year	861	763
Total	**1,260**	**1,328**

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

13. RELATED PARTIES

Transactions and balances outstanding with related parties

Transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

Details of transactions with and balances between the Group and related parties at 30 June 2012 and 31 December 2011 and for the three months and the six months ended 30 June 2012 and 2011 are disclosed below.

a) Transactions with associates of the Group

	Three months ended 30 June		Six months ended 30 June	
	2012	**2011**	**2012**	**2011**
Purchases	55	48	107	96
Dividends	48	9	48	9

Balances outstanding	**30 June 2012**	**31 December 2011**
Accounts receivable	1	4
Accounts payable	9	7

b) Transactions with entities under common control

	Three months ended 30 June		Six months ended 30 June	
	2012	**2011**	**2012**	**2011**
Finance income	1	-	2	-
Loans provided	-	-	25	-

Balances outstanding	**30 June 2012**	**31 December 2011**
Promissory notes receivable	123	99
Interest receivable	3	1

c) Transactions with other related parties

	Three months ended 30 June		Six months ended 30 June	
	2012	**2011**	**2012**	**2011**
Purchases	48	42	97	85
Bank charges	1	2	2	5

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

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
Bank loans and overdrafts obtained	-	-	2	1
Bank loans and overdrafts repaid	2	-	2	2

Balances outstanding	30 June 2012	31 December 2011
Cash and cash equivalents	44	36
Loans provided	2	3
Accounts receivable	1	-
Accounts payable	7	5

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the six months ended 30 June 2012 and 2011, key management personnel received as compensation USD 21 million and USD 12 million, respectively.

14. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 June 2012, the Group executed non-binding purchase agreements of approximately USD 532 million to acquire property, plant and equipment (31 December 2011 – USD 847 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

Contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the six subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these unaudited condensed consolidated interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The unaudited condensed consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

15. EVENTS SUBSEQUENT TO THE REPORTING DATE

In August 2012 the Group has sold its stake in certain subsidiaries holding a license for the development of iron-ore field in Chelyabinsk region, for a consideration of USD 37 million.

16. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements for the six months ended 30 June 2012 were approved by the Group's management and authorized for issue on 27 August 2012.