# Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

## Unaudited Condensed Consolidated Interim Financial Statements

For the Six Months Ended 30 June 2009

## OPEN JOINT STOCK COMPANY
## MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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### 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 2009

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' review report set out on page 2 on the unaudited condensed consolidated interim financial statements, 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 consolidated financial position of the Group at 30 June 2009 and the results of its operations, 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:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the condensed consolidated interim financial statements; and
- Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking steps to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2009 were approved on 31 August 2009 by:

**O. V. Fedonin**
Vice-President Finance

**M. A. Zhemchueva**
Chief Accountant

31 August 2009
Magnitogorsk, Russia

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# REPORT ON THE 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 financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group"), which comprise the condensed consolidated interim statement of financial position at 30 June 2009 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and the explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of 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 accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Deloitte & Touche

31 August 2009
Moscow, Russia

# OPEN JOINT STOCK COMPANY
# MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2009

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

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | | **2009** | **2008** | **2009** | **2008** |
| **PROFIT OR LOSS** | | | | | |
| REVENUE | 4 | 1,038 | 3,484 | 2,003 | 5,653 |
| COST OF SALES | | (859) | (2,301) | (1,712) | (3,915) |
| GROSS PROFIT | | **179** | **1,183** | **291** | **1,738** |
| General and administrative expenses | | (69) | (131) | (133) | (250) |
| Selling and distribution expenses | | (95) | (214) | (189) | (376) |
| Other operating income/(expenses), net | | 2 | (29) | 3 | (71) |
| OPERATING PROFIT/(LOSS) | | **17** | **809** | **(28)** | **1,041** |
| Share of results of associates | | (7) | 3 | (27) | 4 |
| Finance income | | 2 | 27 | 8 | 63 |
| Finance costs | | (15) | (27) | (40) | (42) |
| Foreign exchange gain/(loss), net | | 6 | (11) | (2) | 30 |
| Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition | 3 | 55 | 4 | 55 | 4 |
| Change in net assets attributable to minority participants | | 1 | (3) | 3 | (3) |
| Other income | | 4 | - | 5 | 22 |
| Other expenses | | (15) | (26) | (37) | (49) |
| PROFIT/(LOSS) BEFORE INCOME TAX | | **48** | **776** | **(63)** | **1,070** |
| INCOME TAX | | 11 | (143) | 12 | (254) |
| PROFIT/(LOSS) FOR THE PERIOD | | **59** | **633** | **(51)** | **816** |
| **OTHER COMPREHENSIVE INCOME/(LOSSES)** | | | | | |
| Increase in fair value of available-for-sale investments | | 172 | 821 | 261 | 694 |
| Income tax related to increase in fair value of available-for sale investments | | (34) | (197) | (52) | (166) |
| Translation of foreign operations | | (2) | 6 | (2) | 2 |
| Effect of translation to presentation currency | | 752 | 21 | (592) | 540 |
| OTHER COMPREHENSIVE INCOME/ (LOSSES) FOR THE PERIOD, NET OF TAX | | **888** | **651** | **(385)** | **1,070** |
| TOTAL COMPREHENSIVE INCOME/(LOSSES) FOR THE PERIOD | | **947** | **1,284** | **(436)** | **1,886** |
| Profit/(loss) attributable to: | | | | | |
| Shareholders of the Parent Company | | 60 | 636 | (48) | 822 |
| Minority interest | | (1) | (3) | (3) | (6) |
| | | **59** | **633** | **(51)** | **816** |
| Total comprehensive income/(losses) attributable to: | | | | | |
| Shareholders of the Parent Company | | 936 | 1,283 | (419) | 1,882 |
| Minority interest | | 11 | 1 | (17) | 4 |
| | | **947** | **1,284** | **(436)** | **1,886** |
| BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (U.S. Dollars) | | 0.005 | 0.057 | (0.004) | 0.074 |
| Weighted average number of ordinary shares outstanding (in thousands) | | 11,097,633 | 11,170,368 | 11,096,484 | 11,169,997 |

The notes on pages 8 to 21 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 2009
***(In millions of U.S. Dollars)***

| | Notes | 30 June 2009 | 31 December 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 5 | 9,651 | 9,751 |
| Goodwill | | 42 | 45 |
| Other intangible assets | | 33 | 36 |
| Investments in associates | | 181 | 228 |
| Deferred tax assets | | 81 | 137 |
| Investments in securities and other financial assets | 6 | 481 | 358 |
| Other assets | | 28 | 14 |
| Total non-current assets | | 10,497 | 10,569 |
| CURRENT ASSETS: | | | |
| Inventories | | 646 | 996 |
| Trade and other receivables | | 835 | 991 |
| Investments in securities and other financial assets | 6 | 302 | 138 |
| Income tax receivable | | 15 | 133 |
| Value added tax recoverable | | 148 | 264 |
| Cash and cash equivalents | 7 | 625 | 1,106 |
| Total current assets | | 2,571 | 3,628 |
| **TOTAL ASSETS** | | **13,068** | **14,197** |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY: | | | |
| Share capital | | 386 | 386 |
| Treasury shares | | (69) | (72) |
| Share premium | | 1,103 | 1,104 |
| Investments revaluation reserve | | 232 | 23 |
| Translation reserve | | (2,550) | (1,970) |
| Retained earnings | | 10,144 | 10,192 |
| Equity attributable to shareholders of the Parent Company | | 9,246 | 9,663 |
| Minority interest | | 178 | 189 |
| Total equity | | 9,424 | 9,852 |
| NON-CURRENT LIABILITIES: | | | |
| Long-term borrowings | 8 | 709 | 405 |
| Obligations under finance leases | | 16 | 26 |
| Retirement benefit obligations | | 19 | 31 |
| Deferred tax liabilities | | 1,201 | 1,243 |
| Total non-current liabilities | | 1,945 | 1,705 |
| CURRENT LIABILITIES: | | | |
| Short-term borrowings and current portion of long-term borrowings | 9 | 880 | 1,276 |
| Current portion of obligations under finance leases | | 26 | 19 |
| Current portion of retirement benefit obligations | | 2 | 3 |
| Trade and other payables | | 771 | 1,321 |
| Net assets attributable to minority participants | | 20 | 21 |
| Total current liabilities | | 1,699 | 2,640 |
| **TOTAL EQUITY AND LIABILITIES** | | **13,068** | **14,197** |

The notes on pages 8 to 21 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 2009
***(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 | Minority interest | Total |
| **BALANCE AT 1 JANUARY 2009** | **386** | **(72)** | **1,104** | **23** | **(1,970)** | **10,192** | **9,663** | **189** | **9,852** |
| Total comprehensive income/(loss) for the period | - | - | - | 209 | (580) | (48) | **(419)** | (17) | **(436)** |
| Issuance of ordinary shares from treasury shares | - | 3 | (1) | - | - | - | **2** | - | **2** |
| Minority interest in subsidiaries acquired during the period | - | - | - | - | - | - | **-** | 6 | **6** |
| **BALANCE AT 30 JUNE 2009** | **386** | **(69)** | **1,103** | **232** | **(2,550)** | **10,144** | **9,246** | **178** | **9,424** |
| **BALANCE AT 1 JANUARY 2008** | **386** | **(1)** | **1,105** | **614** | **-** | **9,530** | **11,634** | **152** | **11,786** |
| Total comprehensive income for the period | - | - | - | 528 | 532 | 822 | **1,882** | 4 | **1,886** |
| Purchase of treasury shares | - | (6) | - | - | - | - | **(6)** | - | **(6)** |
| Issuance of ordinary shares from treasury shares | - | 5 | 2 | - | - | - | **7** | - | **7** |
| Dividends | - | - | - | - | - | (239) | **(239)** | - | **(239)** |
| Net increase in minority interest due to additional share issue by subsidiary and change of share in subsidiary | - | - | - | - | - | - | **-** | 41 | **41** |
| **BALANCE AT 30 JUNE 2008** | **386** | **(2)** | **1,107** | **1,142** | **532** | **10,113** | **13,278** | **197** | **13,475** |

The notes on pages 8 to 21 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 2009

***(In millions of U.S. Dollars)***

| | Notes | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| (Loss)/profit for the period | | (51) | 816 |
| Adjustments to (loss)/profit for the period: | | | |
| Income tax | | (12) | 254 |
| Depreciation and amortization | | 329 | 491 |
| Finance costs | | 40 | 42 |
| Loss on disposal of property, plant and equipment | | 32 | 54 |
| Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition | 3 | (55) | (4) |
| Change in allowance for doubtful accounts receivable | | 2 | 1 |
| (Gain)/loss on revaluation and sale of trading securities | | (34) | 31 |
| Change in inventory allowance | | (2) | - |
| Finance income | | (8) | (63) |
| Foreign exchange loss/(gain), net | | 2 | (30) |
| Share of results of associates | | 27 | (4) |
| Change in net assets attributable to minority participants | | (3) | 3 |
| | | 267 | 1,591 |
| Movements in working capital: | | | |
| Decrease/(increase) in trade and other receivables | | 118 | (114) |
| Decrease in value added tax recoverable | | 93 | 15 |
| Decrease/(increase) in inventories | | 289 | (11) |
| Decrease in financial assets, at fair value through profit or loss | | 6 | 12 |
| Decrease in trade and other payables | | (302) | (195) |
| Cash generated from operations | | 471 | 1,298 |
| Interest paid | | (60) | (39) |
| Income tax refund/(paid) | | 141 | (194) |
| Net cash generated by operating activities | | 552 | 1,065 |
| INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment | | (929) | (1,056) |
| Purchase of intangible assets | | (4) | (5) |
| Proceeds from sale of property, plant and equipment | | 12 | 20 |
| Acquisition of subsidiaries, net of cash acquired | 3 | (7) | (3) |
| Acquisition of associate | | - | (234) |
| Interest received | | 12 | 175 |
| Loans provided to related party | 10 | - | (52) |
| Loans repaid by related party | 10 | - | 78 |
| Purchase of securities and other financial assets | | 1 | (42) |
| Proceeds from sale of securities and other financial assets | | 12 | 4 |
| Net change in bank deposits | | 8 | 970 |
| Dividends received from associate | | 5 | - |
| Net cash used in investing activities | | (890) | (145) |

## UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2009 (CONTINUED)

***(In millions of U.S. Dollars)***

| | Notes | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|---|
| FINANCING ACTIVITIES: | | | |
| Proceeds from borrowings | | 1,070 | 1,637 |
| Repayments of borrowings | | (1,104) | (1,763) |
| Net increase in bank overdrafts | | - | 12 |
| Proceeds from capital transactions of subsidiaries | | - | 41 |
| Purchase of treasury shares | | - | (6) |
| Proceeds from issuance of ordinary shares from treasury shares | | 2 | 7 |
| Principal repayments of obligations under finance leases | | (17) | (25) |
| Dividends paid | | (16) | (233) |
| Net cash used in financing activities | | (65) | (330) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (403) | 590 |
| CASH AND CASH EQUIVALENTS, beginning of period | | 1,106 | 256 |
| Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies | | (78) | (40) |
| **CASH AND CASH EQUIVALENTS, end of period** | | **625** | **806** |

The notes on pages 8 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

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

## 1. GENERAL INFORMATION

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

The Parent Company, together with its subsidiaries (the "Group"), is a producer of ferrous metal products. The Group's products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products.

The Group operates in a single business segment, which is composed of the manufacturing of semi-finished and finished steel products. The revenues from the sale of these products constitute more than 90 percent of total revenues. All significant assets, production and management and administrative facilities are located in the city of Magnitogorsk, the Russian Federation.

During 2009, the Group has been significantly impacted by the dramatic fall in prices and demand for commodities, including steel. This decline began in the latter part of 2008 and is directly associated with the worldwide economic slowdown.

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

At 30 June 2009 and 31 December 2008, the Group's principal subsidiaries by country of incorporation were as follows:

| | | **Effective and nominal % held at** | |
|---|---|---|---|
| | **Nature of business** | **30 June 2009** | **31 December 2008** |
| *Russian Federation* | | | |
| OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz" | Production of metal hardware products | 90.25 | 90.21 |
| LLC IK RFC | Investing activities | 100.00 | 100.00 |
| CJSC Stroitelny Fond | Renting services | 100.00 | 100.00 |
| CJSC Stroitelny Komplex | Construction | 100.00 | 100.00 |
| CJSC Ogneupor | Production of refractory materials | 100.00 | 100.00 |
| CJSC Mekhanoremontny Komplex | Maintenance of metallurgical equipment | 100.00 | 100.00 |
| CJSC Mechanoremont | Renting services | 98.93 | 98.93 |
| OJSC MTSOZ | Production of cement and refractory materials | 100.00 | 100.00 |
| LLC Bakalskoe Rudoupravlenie | Mining | 51.00 | 51.00 |
| CJSC Profit (Note 3) | Collection and processing of metal scrap | 100.00 | - |
| LLC TD MMK-Ural (former LLC Uralsibtrade) | Trading activities | 100.00 | 100.00 |
| LLC TD MMK-Moskva (former LLC MAGMA trade) | Trading activities | 100.00 | 100.00 |
| *Switzerland* | | | |
| MMK Steel Trade AG | Trading activities | 100.00 | 100.00 |
| MMK Trading AG | Trading activities | 99.60 | 99.60 |
| MMK Finance SA | Financing activities | 96.77 | 96.77 |
| *Turkey* | | | |
| MMK Atakas Metalurji | Construction of metal plant | 50.00 | 50.00 |

## 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 2009 have been prepared in accordance with IAS 34 “Interim Financial Reporting” (“IAS 34”). The balance sheet at 31 December 2008 has been derived from the balance sheet included in the Group’s financial statements at 31 December 2008. These 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 2008, 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 condensed consolidated interim financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008, except for the impact of the adoption of the Standards and Interpretations described below.

### Adoption of new and revised standards and interpretations

The following new standards, amendments to standards or interpretations are adopted by the Group and effective for the financial year started on 1 January 2009:

- IFRS 7 “Financial Instruments: Disclosures” – amendment;
- IFRS 8 “Operating Segments”;
- IAS 1 “Presentation of Financial Statements” – amendment;
- IAS 16 “Property, Plant and Equipment” – amendment;
- IAS 19 “Employee Benefits” – amendment;
- IAS 20 “Government Grants and Disclosure of Government Assistance” – amendment;
- IAS 23 “Borrowing Costs” – amendment;
- IAS 27 “Consolidated and Separate Financial Statements” – amendment;
- IAS 28 “Investments in Associates” – amendment;
- IAS 32 “Financial Instruments: Presentation” – amendment;
- IAS 34 “Interim Financial Reporting’ – amendment;
- IAS 36 “Impairment of Assets” – amendment;
- IAS 38 “Intangible Assets” – amendment;
- IAS 39 “Financial Instruments: Recognition and Measurement” – amendment.

The first time application of the aforementioned amendments to standards from 1 January 2009 had no material effect on the financial statements of the Group except for IAS 1 (revised 2007) “Presentation of Financial Statements”. The revised Standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

*(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 revaluation of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment" and mark-to-market valuation of certain financial instruments which are reported in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

## 3. ACQUISITION OF SUBSIDIARIES

**2009 Acquisitions**

***CJSC Profit***

In June 2009, the Group acquired a 100% share in CJSC Profit, a holding company of Profit Group engaged in scrap collection and processing, for a total cash consideration of USD 15 million. Entities of the acquired group are incorporated in the Russian Federation, are located throughout the Russian Federation, with a holding company located in Magnitogorsk. The scrap, collected by the Profit Group, is primarily sold to the Group. The acquisition of the strategic raw material supplier will significantly strengthen the Group's security in terms of raw materials supplies.

The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 55 million has been recorded as a gain in a current period. As indicated below the purchase price allocation is provisional and once finalized this gain may change significantly.

This acquisition was accounted for using the purchase method. The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. Because an independent appraisal is not yet available cost has been used as the fair value for property, plant and equipment and inventories. The provisional purchase price allocation for the acquisition is as follows:

| | **Provisional value at the date of acquisition** |
|---|---|
| ASSETS | |
| Property, plant and equipment | 64 |
| Investments in securities and other financial assets | 20 |
| Inventories | 15 |
| Trade and other receivables | 38 |
| Cash and cash equivalents | 8 |
| | 145 |
| LIABILITIES | |
| Borrowings | 19 |
| Obligations under finance lease | 9 |
| Trade and other payables | 36 |
| Net assets attributable to minority participants | 5 |
| | 69 |
| Net assets at the date of acquisition | 76 |
| Less: share of net assets attributable to minority shareholders | (6) |
| Group's share of net assets acquired | 70 |
| Add: Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition | (55) |
| **Cost of acquisition** | **15** |

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

At the date of acquisition, CJSC Profit did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they were not presented in these unaudited condensed consolidated interim financial statements.

If the combination had taken place at the beginning of the year the Group's revenue would have been USD 2,035 million, loss before income tax and loss for the period would not change significantly.

**2008 Acquisitions**

***LLC Uralsibtrade (subsequently renamed LLC TD MMK-Ural)***

At 24 June 2008, the Group acquired an 80% share in LLC Uralsibtrade, a trading company located in the Russian Federation, for a nominal cash consideration. The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 4 million has been included in the condensed consolidated interim statement of comprehensive income.

In December 2008, the Group acquired an additional 20% share in LLC Uralsibtrade for a nominal cash consideration. Following the acquisition the Group's shareholding in this company is 100%.

Since LLC Uralsibtrade was a distributor of the Group's products prior to the acquisition, Group revenue and profit before tax did not change significantly following the acquisition of this company.

During three months ended 30 June 2009, LLC Uralsibtrade was renamed LLC TD MMK-Ural.

## 4. REVENUE

| | **Three months ended 30 June** | | **Six months ended 30 June** | |
|---|---|---|---|---|
| **By product** | **2009** | **2008** | **2009** | **2008** |
| Rolled steel | 581 | 2,037 | 1,171 | 3,172 |
| Assorted rolled products | 91 | 284 | 196 | 536 |
| Galvanized steel | 67 | 100 | 117 | 190 |
| Tin plated steel | 85 | 55 | 115 | 102 |
| Galvanized steel with polymeric coating | 36 | 51 | 64 | 97 |
| Wire, sling, bracing | 19 | 181 | 41 | 266 |
| Band | 18 | 103 | 38 | 168 |
| Hardware products | 19 | 53 | 31 | 106 |
| Formed section | 10 | 51 | 19 | 82 |
| Tubes | 11 | 17 | 18 | 30 |
| Coking production | 9 | 42 | 14 | 74 |
| Slabs | 3 | 278 | 9 | 463 |
| Scrap | - | 73 | - | 103 |
| Others | 89 | 159 | 170 | 264 |
| **Total** | **1,038** | **3,484** | **2,003** | **5,653** |

Scrap sales in 2008 relate to Profit Group, which was acquired by the Group in June 2009 (Note 3).

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| **By customer destination** | **2009** | **2008** | **2009** | **2008** |
| Russian Federation and the CIS | 64% | 65% | 64% | 67% |
| China | 8% | - | 7% | - |
| Iran | 8% | 5% | 6% | 3% |
| Vietnam | 5% | - | 4% | - |
| India | 2% | - | 3% | 1% |
| Turkey | 2% | 6% | 2% | 7% |
| Italy | 1% | 6% | 2% | 5% |
| Others (countries each representing less than 2% of total net revenue) | 10% | 18% | 12% | 17% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Mineral licenses | Machinery and equipment | Transportation equipment | Fixtures and fittings | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| **At 1 January 2008** | **2,650** | **30** | **7,030** | **240** | **131** | **1,160** | **11,241** |
| Additions | 66 | - | 360 | 32 | 16 | 1,892 | 2,366 |
| Transfers | 252 | - | 511 | 3 | 47 | (813) | - |
| Disposals | (16) | - | (167) | (14) | (5) | (27) | (229) |
| Effect of translation to presentation currency | (486) | (5) | (1,276) | (46) | (31) | (371) | (2,215) |
| **At 31 December 2008** | **2,466** | **25** | **6,458** | **215** | **158** | **1,841** | **11,163** |
| Additions | 5 | - | 55 | 1 | 2 | 708 | 771 |
| Acquisition through business combinations (Note 3) | 12 | - | 31 | 12 | 1 | 8 | 64 |
| Transfers | 23 | - | 77 | 3 | 3 | (106) | - |
| Disposals | (4) | - | (63) | (6) | (1) | (5) | (79) |
| Effect of translation to presentation currency | (148) | (1) | (386) | (11) | (9) | (74) | (629) |
| **At 30 June 2009** | **2,354** | **24** | **6,172** | **214** | **154** | **2,372** | **11,290** |
| ***Depreciation*** | | | | | | | |
| **At 1 January 2008** | **(196)** | **(1)** | **(586)** | **(34)** | **(15)** | **-** | **(832)** |
| Charge for the year | (214) | (1) | (654) | (35) | (17) | - | (921) |
| Disposals | 4 | - | 42 | 4 | 2 | - | 52 |
| Effect of translation to presentation currency | 69 | 1 | 203 | 11 | 5 | - | 289 |
| **At 31 December 2008** | **(337)** | **(1)** | **(995)** | **(54)** | **(25)** | **-** | **(1,412)** |
| Charge for the period | (85) | (1) | (217) | (13) | (7) | - | (323) |
| Disposals | - | - | 29 | 3 | - | - | 32 |
| Effect of translation to presentation currency | 15 | - | 48 | 1 | - | - | 64 |
| **At 30 June 2009** | **(407)** | **(2)** | **(1,135)** | **(63)** | **(32)** | **-** | **(1,639)** |
| ***Carrying amount*** | | | | | | | |
| **At 31 December 2008** | **2,129** | **24** | **5,463** | **161** | **133** | **1,841** | **9,751** |
| **At 30 June 2009** | **1,947** | **22** | **5,037** | **151** | **122** | **2,372** | **9,651** |

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

At 30 June 2009, construction-in-progress includes capitalized expenses, related to the implementation of large investment projects by the Group, such as construction of a high-productivity hot rolling plate Mill-5000, a polymer coating plant, new metal plant in Turkey and a cold rolling mill, intended for production of cold rolled metal products of the highest quality.

At 30 June 2009 and 31 December 2008, property, plant and equipment with carrying amount of USD 1,687 million and USD 637 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 8 and 9).

No impairment of property, plant and equipment was recognized in the six months ended 30 June 2009 and 2008 or in the year ended 31 December 2008.

Capital commitments are disclosed in Note 11.

## 6. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| **Non-current** | | |
| **Available-for-sale investments, at fair value** | | |
| Listed equity securities | 472 | 208 |
| Unlisted securities | 4 | 4 |
| **Loans and receivables, at amortized cost** | | |
| Long-term loans | 5 | 4 |
| Long-term deposits | - | 142 |
| **Total non-current** | **481** | **358** |
| **Current** | | |
| **Held-to-maturity investments, at amortized cost** | | |
| Promissory notes receivable | 2 | 7 |
| **Loans and receivables, at amortized cost** | | |
| Short-term deposits (incl. USD 133 million of deposits reclassified from long-term deposits) | 141 | 17 |
| Short-term loans | 23 | 6 |
| **Financial assets, at fair value through profit or loss** | | |
| Trading equity securities | 113 | 83 |
| Trading debt securities | 16 | 21 |
| Share in mutual investment fund | 7 | 4 |
| **Total current** | **302** | **138** |

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 no significant influence. At 30 June 2009 and 31 December 2008, investments revaluation reserve resulting from unrealized holding gains on these securities was USD 232 million and USD 23 million, respectively, net of related income tax effect of USD 58 million and USD 6 million, respectively.

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

RUB-denominated bank deposits of USD 142 million, presented as long-term deposits at 31 December 2008, with original maturity in 2010 were reclassified to short-term deposits at 30 June 2009 (USD 133 million at the current exchange rate) due to change of maturity date in June 2009. These deposits were redeemed in July 2009. The Group received only nominal interest income, related to these deposits.

At 30 June 2009 and 31 December 2008, the weighted average interest rates on short-term bank deposits, excepting those redeemed in July 2009 (see above), with original maturities exceeding ninety days were 10.52% and 10.91%, respectively.

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

Trading debt securities 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.

Net gain/loss on revaluation and sale of trading securities for the six months ended 30 June 2009 and 2008 were USD 34 million (gain) and USD 31 million (loss), respectively. These results are included in other operating expenses/income in the condensed consolidated interim statement of comprehensive income.

## 7. CASH AND CASH EQUIVALENTS

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Cash in banks, RUB | 163 | 62 |
| Cash in banks, USD | 152 | 561 |
| Cash in banks, EUR | 21 | 94 |
| Cash in banks, TRY | 1 | 83 |
| Bank deposits, USD | 109 | - |
| Bank deposits, RUB | 96 | - |
| Bank deposits, TRY | 8 | - |
| Bank deposits, EUR | 6 | - |
| Bank promissory notes, USD | 69 | - |
| Bank promissory notes, RUR | - | 306 |
| **Total** | **625** | **1,106** |

At 30 June 2009, the weighted average interest rates on bank deposits with original maturities less than ninety days were 9.75% for RUB-denominated deposits, 1.84% for USD-denominated deposits, 12.01% for TRY-denominated deposits and 1.24% for EUR-denominated deposits.

At 30 June 2009 and 31 December 2008, the weighted average interest rates on bank promissory notes were 2.00% and 12.00%, respectively.

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

## 8. LONG-TERM BORROWINGS

| | Type of interest rate | Annual weighted average interest rate, actual at 30 June 2009 | Annual weighted average interest rate, actual at 31 December 2008 | 30 June 2009 | 31 December 2008 |
|---|---|---|---|---|---|
| Secured loans, RUB | Fixed | 17% | 17% | 176 | 89 |
| Unsecured loans, USD | Floating | 2% | 3% | 474 | 240 |
| Unsecured loans, USD | Fixed | 4% | 6% | 24 | 34 |
| Unsecured loans, RUB | Fixed | 14% | 13% | 33 | 39 |
| Unsecured loans, EUR | Fixed | 6% | 7% | 2 | 3 |
| **Total** | | | | **709** | **405** |

The information provided below refers to total long-term borrowings, including current portion, identified in Note 9.

**Loans**

During the six months ended 30 June 2009, foreign banks provided USD-denominated loans, bearing interest at 2.93%, LIBOR+0.35% (1.75% at 30 June 2009) and LIBOR+1.90% (2.51% at 30 June 2009) per annum, repayable from 2010 to 2013. The commitment fees on these loans are from 0.075% to 0.3% per annum on the undrawn facilities. At 30 June 2009, the outstanding balance of these loans was USD 45 million.

During the six months ended 30 June 2009, a Russian bank provided a RUB-denominated loan, bearing interest at 17.25% (16.5% at 30 June 2009) per annum, repayable to 2012. The commitment fees on this loan are 0.5% per annum on the undrawn facilities. At 30 June 2009, the outstanding balance of this loan was USD 110 million.

During the six months ended 30 June 2009, foreign banks provided EUR-denominated loans, bearing interest at EURIBOR+1.50% (3.10% at 30 June 2009) per annum, repayable in 2018. The commitment fees on these loans are 0.60% per annum on the undrawn facilities. At 30 June 2009, no draw downs on these facilities had taken place.

The most significant bank financing comprised credit facilities from certain Russian and foreign banks. At 30 June 2009 and 31 December 2008, the total unused element of all credit facilities was USD 1,440 million and USD 929 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;
- The ratio of consolidated EBITDA to consolidated debt service should not be less than1.3:1;
- The ratio of consolidated EBITDA to consolidated interest expense should not be less than 3:1; and
- The ratio of consolidated debt to consolidated equity should not exceed 1:1.

At the date of approval of these unaudited condensed consolidated interim financial statements, the Group was in compliance with its debt covenants.

At 30 June 2009 and 31 December 2008, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 1,368 million and USD 291 million, respectively.

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

**Debt repayment schedule**

| | |
|---|---|
| Year ended 30 June, | |
| 2009 (presented as current portion of long-term borrowings, Note 9) | 508 |
| 2010 | 286 |
| 2011 | 151 |
| 2012 | 71 |
| 2013 and thereafter | 201 |
| **Total** | **1,217** |

## 9. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

| | Type of interest rate | Annual weighted average interest rate, actual at 30 June 2009 | Annual weighted average interest rate, actual at 31 December 2008 | 30 June 2009 | 31 December 2008 |
|---|---|---|---|---|---|
| **Short-term borrowings:** | | | | | |
| Secured loans, USD | Floating | 3% | 3% | 204 | 224 |
| Secured loans, EUR | Floating | - | 4% | - | 52 |
| Secured loans, RUB | Fixed | 17% | 16% | 147 | 154 |
| Unsecured loans, RUB | Fixed | 15% | 15% | 12 | 298 |
| Unsecured loans, RUB | Floating | 16% | - | 9 | |
| Unsecured bank overdrafts, RUB | Fixed | - | 16% | - | 1 |
| | | | | 372 | 729 |
| **Current portion of long-term borrowings:** | | | | | |
| Secured loans, RUB | Fixed | 16% | 17% | 38 | 15 |
| Secured loans, USD | Floating | 3% | 3% | 259 | 260 |
| Unsecured loans, USD | Floating | 2% | 2% | 62 | 90 |
| Unsecured loans, RUB | Fixed | 10% | 10% | 17 | 31 |
| Unsecured loans, USD | Fixed | 6% | 6% | 130 | 148 |
| Unsecured loans, EUR | Fixed | 6% | 7% | 2 | 3 |
| | | | | 508 | 547 |
| **Total** | | | | **880** | **1,276** |

The weighted average interest rates of short-term borrowings at 30 June 2009 and 31 December 2008 were as follows:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| RUB-denominated | 16% | 15% |
| USD-denominated | 4% | 4% |
| EUR-denominated | - | 4% |

At 30 June 2009 and 31 December 2008, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 319 million and USD 346 million, respectively, inventory of USD 10 million and USD 21 million, respectively, and shares in a subsidiary of USD 147 million and USD 157 million, respectively.

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

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

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Due in: | | |
| 1 month | 89 | 172 |
| 1-3 months | 259 | 299 |
| 3 months to 1 year | 532 | 805 |
| **Total** | **880** | **1,276** |

## 10. RELATED PARTIES

### Transactions and balances outstanding with related parties

Transactions between the Company and its subsidiaries, which are related parties of the 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 Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

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

**CJSC Profit**

CJSC Profit, a company which was affiliated with the Group's controlling shareholders, purchases scrap metal from third parties and Group entities and sells it to the Group. In 2008, CJSC Profit also reprocessed scrap metal prior to selling it to the Group. CJSC Profit was acquired by the Group in June 2009 (Note 3).

The Group also provided loans to the company. At the date of acquisition, there were no outstanding loans.

**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 on arm's length basis.

**OJSC SKM**

OJSC SKM, an insurance company, which was affiliated with the Group's controlling shareholders and the Group's management, provides insurance services to the Group. OJSC SKM is not considered to be a related party of the Group effective 16 May 2008, due to changes in the management structure of the company.

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

**LLC MMK Trans**

LLC MMK Trans, the Group's affiliate, provides transportation and forwarding 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 Kemerovo region, Russian Federation. The Group provides loans to CJSC Kazankovskaya Mine.

**CJSC SKM-Invest**

CJSC SKM-Invest, a leasing company, which was affiliated with the Group's management, provides assets under capital lease to the Group. CJSC SKM-Invest is not considered to be a related party of the Group effective 16 May 2008, due to changes in the management structure of the company.

**OJSC Belon**

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

Details of transactions with and balances between the Group and related parties at 30 June 2009 and 31 December 2008 and for the six months ended 30 June 2009 and 2008 are disclosed below.

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| **Transactions** | **2009** | **2008** | **2009** | **2008** |
| ***Revenue*** | | | | |
| LLC MEK | 1 | - | 1 | 1 |
| OJSC Belon | 1 | - | 1 | - |
| CJSC Profit | - | 104 | - | 197 |
| Total | 2 | 104 | 2 | 198 |
| ***Purchases*** | | | | |
| OJSC Belon | 24 | 84 | 49 | 104 |
| LLC MEK | 15 | 48 | 28 | 87 |
| LLC MMK Trans | 11 | 8 | 21 | 15 |
| CJSC Profit (scrap) | 18 | 636 | 19 | 1,022 |
| Total | 68 | 776 | 117 | 1,228 |
| ***Loans provided*** | | | | |
| CJSC Profit | - | 52 | - | 52 |
| ***Loans repaid*** | | | | |
| CJSC Profit | - | 20 | - | 78 |
| ***Bank charges*** | | | | |
| OJSC CUB | 1 | 2 | 2 | 4 |

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| **Transactions** | **2009** | **2008** | **2009** | **2008** |
| ***Bank loans and overdrafts obtained*** | | | | |
| OJSC CUB | 2 | 35 | 9 | 48 |
| ***Bank loans and overdrafts repaid*** | | | | |
| OJSC CUB | 11 | 22 | 12 | 38 |
| ***Insurance payments*** | | | | |
| OJSC SKM | - | 2 | - | 7 |
| ***Lease payments*** | | | | |
| CJSC SKM-Invest | - | 1 | - | 6 |

| **Balances** | **30 June 2009** | **31 December 2008** |
|---|---|---|
| ***Cash and cash equivalents*** | | |
| OJSC CUB | 56 | 155 |
| ***Loans and overdraft facilities*** | | |
| OJSC CUB | 12 | 16 |
| ***Accounts receivable*** | | |
| LLC MMK Trans | 26 | 3 |
| CJSC Profit | - | 8 |
| Total | 26 | 11 |
| ***Accounts payable*** | | |
| LLC MEK | 2 | 2 |
| CJSC Profit | - | 259 |
| OJSC Belon | - | 7 |
| LLC MMK Trans | - | 4 |
| Total | 2 | 272 |

All amounts outstanding are unsecured and expected to be settled in cash.

**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 2009 and 2008, key management personnel received as compensation USD 5 million and USD 19 million, respectively.

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

## 11. COMMITMENTS AND CONTINGENCIES

### Capital commitments

At 30 June 2009, the Group executed non-binding purchase agreements of approximately USD 2,281 million to acquire property, plant and equipment (at 31 December 2008 – USD 2,818 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.

### Issued guarantees

At 30 June 2009 and 31 December 2008, amounts related to financial guarantees given by the Group to third parties were as follows:

| | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Non-current | 46 | 61 |
| Current | 2 | 10 |
| **Total** | **48** | **71** |

### Contingencies

***Taxation contingencies in the Russian Federation***

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterized by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group’s tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group’s previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

***Russian Federation risk***

The economy of the Russian Federation, while deemed to be of market status, continue to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

***Recent volatility in global and Russian financial markets***

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilization measures that may be put into place by the Russian Government, there exists as at the date these unaudited condensed consolidated interim financial statements are authorized for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

## 12. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

In July 2009 Mill-5000, a key investment project of the Group, was placed into operation. Expenditures, including VAT, related to this project are expected to be RUB 39,000 million (USD 1,246 million).

In August 2009, the Parent Company has repaid ahead of schedule its secured RUB-denominated loan in amount of USD 128 million, with original maturity of November 2009. This loan was secured by property, plant and equipment, which at 30 June 2009 had a net carrying amount of USD 308 million.

## 13. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements for the six months ended 30 June 2009 were approved by the Group's management and authorized for issue on 31 August 2009.