

Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

**Independent Accountants'
Review Report**

**Condensed Consolidated Interim
Financial Statements**

As of June 30, 2007 and
December 31, 2006 and
For the Six Months
Ended June 30, 2007 and 2006

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of OJSC "Magnitogorsk Iron & Steel Works":

We have reviewed the accompanying condensed consolidated interim balance sheet of OJSC "Magnitogorsk Iron & Steel Works" and its subsidiaries (the "Group") as of June 30, 2007, the related condensed consolidated interim statements of operations and comprehensive income for the three months and six months ended June 30, 2007 and 2006, and the statements of cash flows and changes in shareholders' equity for the six months ended June 30, 2007 and 2006. These interim financial statements are the responsibility of the Group's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as of December 31, 2006, the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated March 15, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.



August 27, 2007

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

**CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in millions of U.S. Dollars)**

	Note	June 30, 2007	December 31, 2006
ASSETS			
Current assets:			
Cash and cash equivalents		548	338
Short-term bank deposits	3	1,278	228
Short-term investments	4	306	325
Accounts receivable from third parties, less allowance for doubtful accounts of USD 11 as of June 30, 2007 and USD 12 as of December 31, 2006		905	834
Accounts receivable from related parties	13	111	17
Prepaid expenses		24	14
Inventories		687	688
Current deferred income tax assets		36	36
Total current assets		3,895	2,480
Property, plant and equipment, net		3,023	2,764
Investments in affiliates	5	82	123
Long-term investments	4	379	146
Long-term bank deposits	3	111	109
Long-term deferred income tax assets		13	10
Goodwill		2	2
Other intangible assets, net		44	43
Other long-term assets		28	12
TOTAL ASSETS		7,577	5,689

See notes to the condensed consolidated interim financial statements.

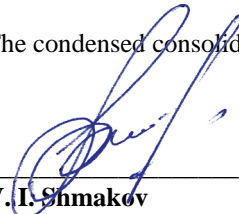
**OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in millions of U.S. dollars)**

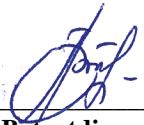
	Note	June 30, 2007	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank overdrafts		8	2
Short-term borrowings and current portion of long-term debt	6	464	373
Current portion of long-term capital lease obligations		26	25
Accounts payable and accrued liabilities		611	545
Accounts payable to related parties	13	21	8
Current deferred income tax liabilities		17	11
Total current liabilities		1,147	964
Long-term debt, net of current portion	7	547	577
Long-term capital lease obligations, net of current portion		31	29
Employee benefit obligations	8	28	30
Long-term deferred income tax liabilities		123	50
Total liabilities		1,876	1,650
Minority interest		23	12
Shareholders' equity:			
Common stock	9	403	363
Treasury stock, at cost	9	(123)	(85)
Additional paid-in capital		1,206	254
Accumulated other comprehensive income		197	18
Retained earnings		3,995	3,477
Total shareholders' equity		5,678	4,027
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,577	5,689

See notes to the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were approved and signed on August 27, 2007, by:



V. I. Shmakov
Vice-President Finance



A. S. Batrutdinov
Deputy Chief Accountant

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME FOR THE THREE MONTHS AND SIX MONTHS
ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)**

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

	Note	Three months ended June 30, 2007	2006	Six months ended June 30, 2007	2006
Net revenue		2,155	1,564	4,000	2,780
Cost of products sold (exclusive of depreciation and amortization shown separately below)		(1,238)	(908)	(2,348)	(1,631)
Depreciation and amortization		(50)	(47)	(99)	(89)
Selling and distribution expenses		(125)	(110)	(256)	(191)
Administrative and other expenses		(57)	(75)	(121)	(134)
Social expenses					
Social asset construction costs		-	-	(7)	-
Social and maintenance expenses		(28)	(18)	(40)	(31)
Taxes other than income tax		(21)	(17)	(40)	(25)
Loss on disposal of property, plant and equipment		(20)	(4)	(29)	(6)
Other operating income, net		12	13	17	17
Income from operating activities		628	398	1,077	690
Equity in net income/(losses) of affiliates		5	(2)	4	(4)
Interest income		27	13	44	31
Interest expense		(22)	(13)	(37)	(27)
Net foreign exchange gain		10	42	31	89
Income before income tax and minority interest		648	438	1,119	779
Income tax expense		(130)	(99)	(251)	(191)
Income before minority interest		518	339	868	588
Minority interest		(2)	1	(2)	-
Net income		516	340	866	588
Other comprehensive income:					
Unrealized gain on securities classified as available for sale, net of income tax effect of USD 39 and USD 57, for the three and six months ended 30 June, 2007, respectively		123	-	179	-
Comprehensive income		639	340	1,045	588
Basic and diluted earnings per common share (USD)	10			0.083	0.058

See notes to the condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in millions of U.S. dollars)**

	<u>Six months ended June 30, 2007</u>	<u>Six months ended June 30, 2006</u>
Operating activities:		
Net income	866	588
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	99	89
Loss on disposal of property, plant and equipment	29	6
Change in allowance for doubtful accounts receivable	(1)	(2)
Net gain on trading securities	(4)	(2)
Deferred income tax	12	1
Equity in net (income)/losses of affiliates	(4)	4
Minority interest	2	-
Changes in operating assets and liabilities:		
Decrease/(increase) in inventories	3	(23)
Increase in trade and other receivables	(190)	(88)
Decrease in investments classified as trading securities	78	-
Increase in trade accounts payable, accrued liabilities and other current liabilities	47	81
Increase in income tax payable	56	6
Net cash provided by operating activities	<u>993</u>	<u>660</u>
Investing activities:		
Proceeds from sales of property, plant and equipment	18	5
Proceeds from disposal of subsidiary	-	5
Purchase of investments in affiliates	-	(5)
Acquisition of subsidiaries, net of cash acquired	(17)	-
Advance paid for purchase of Pakistan Steel Mills Corporation	-	(37)
Purchase of property, plant and equipment	(356)	(299)
Purchase of intangible assets	(8)	(11)
Net change in bank deposits	(1,050)	-
Net cash of other investments	(23)	(28)
Net cash used in investing activities	<u>(1,436)</u>	<u>(370)</u>
Financing activities:		
Proceeds from loans	786	652
Loan principal paid	(719)	(440)
Net increase in bank overdrafts	6	1
Proceeds of share issue, net of issue costs	977	-
Acquisition of treasury shares	(44)	(4)
Proceeds from re-issuance of treasury shares	21	7
Principal payments on capital lease obligations	(17)	(13)
Dividends paid	(357)	(423)
Net cash provided by/(used in) financing activities	<u>653</u>	<u>(220)</u>
Effect of exchange rate changes on cash and cash equivalents	-	5
Net increase in cash and cash equivalents	<u>210</u>	<u>75</u>
Cash and cash equivalents at beginning of the period	<u>338</u>	<u>1,138</u>
Cash and cash equivalents at end of the period	<u>548</u>	<u>1,213</u>
Supplementary information:		
Interest paid	(33)	(22)
Income tax paid	(183)	(184)
Non-cash investing and financing activities:		
Machinery and equipment acquired under capital leases	15	21

See notes to the condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in millions of U.S. dollars)**

	Note	Common stock	Common treasury stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
Balance as of January 1, 2006		363	(64)	247	-	3,131	3,677
Acquisition of treasury shares		-	(4)	-	-	-	(4)
Re-issuance of treasury shares, net of income tax effect of USD 0.3		-	2	5	-	-	7
Dividends	9	-	-	-	-	(420)	(420)
Net income		-	-	-	-	588	588
Balance as of June 30, 2006		363	(66)	252	-	3,299	3,848
Balance as of January 1, 2007		363	(85)	254	18	3,477	4,027
Share issue	9	40	-	937	-	-	977
Acquisition of treasury shares		-	(44)	-	-	-	(44)
Re-issuance of treasury shares, net of income tax effect of USD 4		-	6	15	-	-	21
Revaluation of securities classified as available for sale, net of income tax effect of USD 57		-	-	-	179	-	179
Dividends	9	-	-	-	-	(348)	(348)
Net income		-	-	-	-	866	866
Balance as of June 30, 2007		403	(123)	1,206	197	3,995	5,678

See notes to the condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED) *(Amounts in millions of U.S. dollars, unless otherwise stated)*

1. DESCRIPTION OF BUSINESS

The condensed consolidated interim financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (“the Group”) comprise the parent company, Open Joint Stock Company Magnitogorsk Iron & Steel Works (“the Parent Company”), and its 59 subsidiaries. The Parent Company is an open joint stock company as defined in the Civil Code of the Russian Federation. The head office of the Group is located at:

Ulitsa Kirova 93,
455002, Magnitogorsk,
The Russian Federation.

The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on October 17, 1992 as part of the Russian Federation privatization program. The principal activity of the Group is the production of ferrous metal products at the Parent Company’s plant located in the city of Magnitogorsk in the Chelyabinsk region of the Russian Federation. The Group’s products are sold in the Russian Federation and abroad. The Group’s subsidiaries are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

The Group’s Russian entities maintain their accounting records in Russian Rubles (“RUB”) in accordance with the requirements of Russian accounting and tax legislation.

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

Principles of consolidation

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

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

Use of estimates

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

Concentration of business risk

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

Reporting and functional currencies

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

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

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

As of June 30, 2007 and December 31, 2006, exchange rates of 25.82 and 26.33 RUB to USD, respectively, have been used for remeasurement purposes. The weighted average exchange rates for the six months ended June 30, 2007 and 2006 were 26.06 and 27.64 RUB to USD, respectively.

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

Comprehensive income

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

Segment information

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

3. SHORT-TERM AND LONG-TERM BANK DEPOSITS

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Short-term bank deposits		
Bank deposits, RUB	1,278	228
Long-term bank deposits		
Bank deposits, RUB	111	109

As of June 30, 2007 and December 31, 2006, the weighted average interest rates on short-term bank deposits with original maturities exceeding ninety days were 9.92% and 10.08%, respectively.

As of June 30, 2007 and December 31, 2006, long-term subordinated deposits were placed in a Russian bank and not available to be withdrawn before December 15, 2009.

As of June 30, 2007 and December 31, 2006, the weighted average interest rate on long-term bank deposits was 6.50%.

4. SHORT-TERM AND LONG-TERM INVESTMENTS

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Short-term investments		
Trading equity securities	148	30
Trading debt securities	98	78
Equity securities classified as available for sale	47	-
Share in mutual investment fund	12	5
Trading promissory notes	1	212
	<u>306</u>	<u>325</u>
Long-term investments		
Equity securities classified as available for sale	<u>379</u>	<u>146</u>

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

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

Net gains on trading securities for the six months ended June 30, 2007 and 2006 were USD 4 million and USD 2 million, respectively. Those gains were included in other operating income in the condensed consolidated interim statement of operations and comprehensive income.

Short-term equity securities classified as available for sale represent a 50% share in LLC M-Port, reclassified from investments in affiliates (Note 5). This investment was disposed of subsequent to June 30, 2007 (Note 16).

Long-term equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and no significant influence. As of June 30, 2007 and December 31, 2006, unrealized holding gains on these securities were USD 197 million and USD 18 million, net of the related income tax effect of USD 62 million and USD 5 million, respectively, and reported as a separate component of other comprehensive income.

5. INVESTMENTS IN AFFILIATES

The Group's equity method investments in affiliates as of June 30, 2007 and December 31, 2006 comprised the following:

Affiliate	Registered in	Investment carrying value		Ownership and voting interest, %	
		June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
<i>Carrying value of investments</i>					
CJSC Kazankovskaya Mine	Russia	34	33	50%	50%
LLC MMK Trans	Russia	7	5	50%	50%
LLC M-Port	Russia	-	46	-	50%
<i>Loans provided to affiliates</i>					
CJSC Kazankovskaya Mine	Russia	41	39		
		<u>82</u>	<u>123</u>		

As of June 30, 2007, the investment in LLC M-Port was reclassified as available for sale (Note 4).

As of June 30, 2007 and December 31, 2006, the Group provided CJSC Kazankovskaya Mine with a total of USD 41 million and USD 39 million in unsecured loans, respectively, with maturity in December 2013. These loans bear interest of 10% per annum. As of June 30, 2007 and December 31, 2006, the outstanding amount of loans provided included accrued interest of USD 5 million and USD 4 million, respectively.

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

Type of interest rate		Annual interest rate (actual as of June 30, 2007)	June 30, 2007	December 31, 2006
Short-term borrowings:				
Secured loans, USD	Floating	6%	289	226
Secured loans, RUB	Fixed	11%	3	6
Unsecured loans, RUB	Floating	6%	5	17
Unsecured loans, RUB	Fixed	8%	12	1
			<u>309</u>	<u>250</u>
Current portion of long-term debt:				
Unsecured corporate bonds, USD	Fixed	9%	4	4
Secured loans, RUB	Fixed	-	-	1
Unsecured loans, USD	Floating	6%	115	98
Unsecured loans, RUB	Floating	6%	5	10
Unsecured loans, RUB	Fixed	8%	26	7
Unsecured loans, USD	Fixed	5%	3	2
Unsecured loans, EUR	Fixed	6%	2	1
			<u>155</u>	<u>123</u>
			<u>464</u>	<u>373</u>

The weighted average interest rate of the RUB-denominated short-term borrowings as of June 30, 2007 and December 31, 2006 were 8% and 9%, respectively. The weighted average interest rate of the USD-denominated short-term borrowings as of June 30, 2007 and December 31, 2006 was 6%.

As of June 30, 2007 and December 31, 2006, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 5 million and USD 1 million, respectively, and inventory of USD 16 million and USD 9 million, respectively.

7. LONG-TERM DEBT, NET OF CURRENT PORTION

	Type of interest Rate	Annual interest rate (actual as of June 30, 2007)	June 30, 2007	December 31, 2006
Unsecured corporate bonds, USD	Fixed	9%	299	299
Secured loans, RUB	Fixed	13%	3	1
Unsecured loans, USD	Floating	6%	205	257
Unsecured loans, USD	Fixed	5%	9	10
Unsecured loans, RUB	Fixed	10%	13	5
Unsecured loans, EUR	Fixed	6%	6	3
Unsecured loans, RUB	Floating	6%	12	2
			547	577

Credit facilities

The most significant debt provided by financial institutions included credit line facilities from certain Russian and foreign banks. As of June 30, 2007 and December 31, 2006, the total unused portions of all credit facilities were USD 139 million and USD 246 million, respectively.

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

Corporate bonds

In October 2003, MMK Finance S.A., a wholly-owned subsidiary of the Group, issued on the Luxembourg Stock Exchange USD 300 million of 8% notes at an issue price of 98.99 percent, due in October 2008. The notes are fully, unconditionally and irrevocably guaranteed by the Parent Company. Interest payments on the notes are due semi-annually in equal installments on April 21 and October 21 of each year, commencing April 21, 2004. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. For the six months ended June 30, 2007 and 2006, interest expenses on these notes amounted to USD 12 million for each semi-annual period.

Loans

In 2006, foreign banks provided USD-denominated loans, bearing interest at LIBOR+1.00% (6.32% as of June 30, 2007) per annum with maturity in June 2009. As of June 30, 2007, the outstanding balance was USD 138 million.

In 2005, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.25% (5.64% as of June 30, 2007), LIBOR+0.30% (5.69% as of June 30, 2007) and 4.05% per annum, repayable from 2009 to 2011. The commitment fees are from 0.07% to 0.08% per annum on the undrawn facilities. As of June 30, 2007, the outstanding balance of these loans was USD 67 million.

In 2004, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.18% (5.57% as of June 30, 2007) and LIBOR+0.25% (5.64% as of June 30, 2007) per annum, repayable from 2010 to 2011. The commitment fees are from 0.08% to 0.10% per annum on the undrawn facilities. As of June 30, 2007, the outstanding balance of these loans was USD 91 million.

In 2003, foreign banks provided USD-denominated loans, bearing interest at LIBOR+0.30% (5.69% as of June 30, 2007), LIBOR+0.45% (5.84% as of June 30, 2007) and LIBOR+0.75% (6.14% as of June 30, 2007) per annum, repayable from 2008 to 2011. The commitment fees are from 0.10% to 0.20% per annum on the undrawn facilities. As of June 30, 2007, the outstanding balance of these loans was USD 37 million.

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

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

As of June 30, 2007 and December 31, 2006, loans were secured by property, plant and equipment with a net carrying amount of USD 1 million and USD 2 million, respectively, and inventory of USD 2 million and USD 2 million, respectively.

Debt repayment schedule

Year ended June 30,	
2008 (presented as current portion of long-term debt, Note 6)	155
2009	438
2010	53
2011	36
2012 and thereafter	20
	702

8. EMPLOYEE BENEFITS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 40 million and USD 28 million for the six months ended June 30, 2007 and 2006, respectively.

In addition, the Group makes monthly contributions to a non-government pension fund, Sotsialnaya Zashchita Starosti, where its employees have individual accumulation agreements with the fund. The Group has the ability to exercise significant influence over the financial and operating policy decisions of the fund through positions that certain directors of the Group have on the board of directors of the fund. The monthly contribution made by the Group is equal to the employee's contribution, unless the employee is a male aged between 55 and 60, or a female aged between 50 and 55, in which case the contribution is 1.5 times the employee's contribution. For the six months ended June 30, 2007 and 2006, the maximum monthly contributions by the Group for each employee were RUB 6,000 (USD 232) and RUB 6,000 (USD 222), respectively. The Group's total contributions to the fund amounted to USD 2.5 million and USD 2.0 million for the six months ended June 30, 2007 and 2006, respectively.

Defined benefit plan

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

Those employees receive lifetime pension payments varying from RUB 250 (USD 9.58) to RUB 450 (USD 17.25) per month depending on the employee's actual years of service and qualifications.

For the six months ended June 30, 2007 and 2006, the Group made monthly payments to the fund of RUB 388 (USD 14.90) and RUB 327 (USD 12.08), respectively, per retiree, which were then distributed by the fund to the retirees.

As of June 30, 2007 and December 31, 2006, principal actuarial assumptions used in determining the projected benefit obligations and net periodic pension expense were as follows:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Discount rate	9.0%	9.0%
Future pension benefit increases	8.0%	8.4%
Average life expectancy of members from date of retirement	10.0	10.4

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

	<u>Six months ended June 30, 2007</u>	<u>Six months ended June 30, 2006</u>
Projected benefit obligations at beginning of the period	30	26
Interest cost	1	1
Actuarial gains	(3)	(2)
Benefit payments during the period	(1)	(2)
Foreign exchange losses	1	2
Unfunded status of the plan at end of the period	<u>28</u>	<u>25</u>

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

The accumulated benefit obligations as of June 30, 2007 and December 31, 2006 were as follows:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Accumulated benefit obligations	<u>28</u>	<u>30</u>

The components of the net periodic benefit costs for the three and six months ended June 30, 2007 and 2006 were as follows:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest cost	-	-	1	1
Actuarial gains	(1)	-	(3)	(2)
Foreign exchange losses	1	1	1	2
	<u>-</u>	<u>1</u>	<u>(1)</u>	<u>1</u>

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

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

Year ended June 30,	
2008	3
2009	3
2010	3
2011	2
2012	2
2013-2017	8
Thereafter	7
	<u>28</u>

9. SHAREHOLDERS' EQUITY

Common stock

As of June 30, 2007 and December 31, 2006, the Parent Company had 11,672,825 thousand and 10,630,222 thousand issued and outstanding common shares with a par value of RUB 1 each.

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

Subsequently, in April 2007, the Parent Company issued 1,042,603 thousand common shares with a par value of RUB 1 each increasing its Share capital by USD 40 million.

In April 2007, the Parent Company completed an initial public offering ("IPO") of its shares in the Russian Federation and on the London Stock Exchange. The Parent Company and Mintha Holding Limited (the "Selling Shareholder") offered 1,040,000 thousand shares in the form of common shares and global depository receipts ("GDRs"), with each GDR representing 13 newly issued common shares. The offer price was USD 0.96 per each common share and USD 12.50 per each GDR. The proceeds from the IPO amounted to USD 975 million, net of capitalized fees and commission payable totalling USD 25 million.

In April 2007, 2,603 thousand of newly issued common shares were purchased by minority shareholders of the Parent Company in accordance with their pre-emptive rights. The proceeds of this placement amounted to USD 2 million.

As a result of additional issue of shares, additional paid-in capital of the Parent Company increased by USD 937 million.

Treasury stock

As of June 30, 2007 and December 31, 2006, the Group held as treasury shares 501,875 thousand and 485,062 thousand, respectively, issued common shares of the Parent Company.

All treasury stock is recorded at cost.

Shareholders' voting rights

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

Dividends

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

On April 21, 2006, the Parent Company declared a final dividend of RUB 0.532 (USD 0.019) per common share in respect of the year ended December 31, 2005 representing a total dividend of USD 206 million. Of this total, USD 9 million was attributable to Group entities.

On May 26, 2006, the Parent Company declared an interim dividend of RUB 0.593 (USD 0.022) per common share in respect of the three months ended March 31, 2006 representing a total dividend of USD 233 million. Of this total, USD 10 million was attributable to Group entities.

10. EARNINGS PER COMMON SHARE

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

The calculation of basic and diluted earnings per common share for the six months ended June 30, 2007 and 2006 was as follows:

	<u>Six months ended June 30, 2007</u>	<u>Six months ended June 30, 2006</u>
Net income applicable to common stock	866	588
Weighted average number of common shares outstanding (in thousands):		
Basic and diluted	10,489,923	10,162,941
Earnings per common share (USD):		
Basic and diluted	0.083	0.058

There were no dilutive securities issued as of June 30, 2007 and 2006.

11. ACQUISITIONS

LLC Bakalskoe Rudoupravlenie

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

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

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

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

LLC UK RFTs-Kapital

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

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value of financial instruments

The estimated fair value of certain financial instruments has been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material impact on the estimated fair values.

As of June 30, 2007, the estimated fair value of financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable, approximated their carrying value due to the short-term nature of these instruments. As of June 30, 2007, USD 300 million of corporate bonds due in 2008 had a fair value of 102.5% or USD 308 million. The fair value of other fixed-rate debt including capital lease obligations and floating-rate debt approximated its carrying value.

Credit risk

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

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

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

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

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

13. RELATED PARTY TRANSACTIONS

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

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

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

CJSC Profit

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

OJSC CUB

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

LLC MMK Trans

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

OJSC SKM

OJSC SKM, an insurance company affiliated with the Group's controlling shareholders and the Group's management, provides insurance services to the Group.

CJSC Kazankovskaya Mine

CJSC Kazankovskaya Mine, the Group's affiliate, holds a license to explore and mine coal deposits located in the Kemerovo region, the Russian Federation. The Group provided loans to CJSC Kazankovskaya Mine.

CJSC SKM-Invest

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

Transactions	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenue				
CJSC Profit	92	25	125	49
LLC MMK Trans	-	1	-	1
Total	92	26	125	50
Purchases				
CJSC Profit	294	138	543	241
LLC MMK Trans	9	6	13	10
Total	303	144	556	251
Loans provided				
CJSC Kazankovskaya Mine	-	8	-	18
OJSC SKM	-	-	-	2
Total	-	8	-	20
Loans repaid				
OJSC SKM	-	2	-	2
Other	-	1	-	1
Total	-	3	-	3
Bank charges				
OJSC CUB	1	3	2	6
Loans and overdrafts obtained				
OJSC CUB	10	2	32	5
Loans and overdrafts repaid				
OJSC CUB	9	6	30	10
Insurance payments				
OJSC SKM	8	4	15	12
Lease payments				
CJSC SKM-Invest	4	3	9	6

Balances	June 30, 2007	December 31, 2006
<i>Cash and cash equivalents</i>		
OJSC CUB	98	151
<i>Loans and overdraft facilities</i>		
OJSC CUB	8	6
<i>Loans provided</i>		
CJSC Kazankovskaya Mine	41	39
<i>Accounts receivable</i>		
CJSC Profit	109	13
LLC MMK Trans	2	4
Total	111	17
<i>Accounts payable</i>		
OJSC SKM	11	1
CJSC Profit	8	5
LLC MMK Trans	2	2
Total	21	8
<i>Lease payable</i>		
CJSC SKM-Invest	25	25

14. CONTINGENCIES

Issued guarantees

As of June 30, 2007 and December 31, 2006, the Group has provided financial guarantees for loans obtained by certain related and third party suppliers of the Group. The amounts related to the Group's financial guarantees were as follows:

	June 30, 2007	December 31, 2006
Non-current		
Related parties	194	200
Third parties	69	37
	263	237
Current		
Related parties	4	1
Third parties	1	7
	5	8
Total	268	245

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

As of June 30, 2007, the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

Litigation

As of June 30, 2007, the Group was subject to various lawsuits, claims and proceedings related to matters incidental to its business. In the opinion of the Group's management, as of June 30, 2007, there were no material unresolved adverse claims or other matters.

Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying condensed consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Tax contingencies

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

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

Environmental liabilities

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

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

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

15. DISPOSAL OF SUBSIDIARY

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

16. SUBSEQUENT EVENTS

In May 2007, the Group announced a joint venture with Atakas Group, Turkey, to establish a metal processing facility located in Turkey. In July 2007, the Group acquired 50% plus 1 share in a Turkish company Atakas Metalurji for a total cash consideration of USD 102 million. Further, Atakas Metalurji was renamed as MMK Atakas Metalurji.

In August 2007, the Group acquired 75% share in CJSC Interkos-IV, a manufacturer of spare parts for automotive industry, located in Saint-Petersburg, Russian Federation, for a total cash consideration of USD 20 million.

In August 2007, the Group acquired 25.67% share in OJSC Bashmetalloptorg, a wholesale trader of metal products, located in Bashkortostan republic, Russian Federation, for a total cash consideration of USD 2 million.

In August 2007, the Group sold its 50% share in LLC M-Port for a total cash consideration of USD 70 million.