Open Joint Stock Company Magnitogorsk Iron & Steel Works and subsidiaries

Independent Accountants' Review Report

Condensed Consolidated Interim Financial Statements
as of June 30, 2006 and December 31, 2005
and for the six months ended June 30, 2006
and 2005

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 subsidiaries (the "Group") as of June 30, 2006, the related condensed consolidated interim statements of operations and comprehensive income for the three months and six months ended June 30, 2006, and the statements of cash flows and changes in stockholders' equity for the six months ended June 30, 2006. These financial statements are the responsibility of the Group's management.

The consolidated interim financial statements of the Group as of June 30, 2005 and for the six months then ended were reviewed by another auditor, whose review report dated September 21, 2005 did not contain any qualification.

We conducted our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of 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.

Deloitte & Touche

August 31, 2006

OPEN JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
AS OF JUNE 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005
(Amounts in millions of U.S. dollars, except share amounts)

	Note	June 30, 2006	December 31, 2005
Assets			
Cash and cash equivalents		1,213	1,138
Accounts receivable from third parties, less allowance for doubtful trade accounts of USD 18 million as at June 30, 2006 and USD 20 million as at December 31, 2005		651	569
Accounts receivable from affiliates and other related parties		4	3
Prepaid expenses		36	12
Inventories		591	568
Other investments		31	13
Current deferred income tax asset		35	26
Assets of discontinued operations	4	-	7
Total current assets		**2,561**	**2,336**
Property, plant and equipment, at cost		5,284	4,978
Less accumulated depreciation		(2,777)	(2,697)
Property, plant and equipment, net		2,507	2,281
Intangible assets		33	28
Investments in affiliates		89	90
Other investments		13	1
Non-current bank deposits	7	106	99
Non-current deferred income tax asset		17	2
Other non-current assets		41	17
Total assets		**5,367**	**4,854**
Liabilities and Stockholders' Equity			
Bank overdrafts		1	-
Short-term borrowings and current portion of long-term debt	5	229	165
Current portion of capital lease obligations to affiliates and other related parties		10	6
Accounts and notes payable		533	460
Accounts payable to affiliates and other related parties		19	9
Current deferred income tax liability		20	26
Total current liabilities		**812**	**666**
Non-current portion of long-term debt	5	618	456
Capital lease obligations to affiliates and other related parties		17	12
Employee benefits	6	25	26
Non-current deferred income tax liability		36	5
Other non-current liabilities		-	1
Total liabilities		**1,508**	**1,166**
Minority interest		**11**	**11**
Common stock (10,630,222 thousand stock with a par value of 1 Russian Rouble each, authorized and issued)	9	363	363
Treasury stock at cost (common stock totaling 466,181 thousand shares and 472,832 thousand shares at June 30, 2006 and December 31, 2005, respectively)	9	(66)	(64)
Additional paid-in capital		252	247
Retained earnings		3,299	3,131
Total stockholders' equity		**3,848**	**3,677**
Total liabilities and stockholders' equity		**5,367**	**4,854**

See notes to the condensed consolidated interim financial statements.

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, 2006 AND 2005 (UNAUDITED)

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

	Note	Three months ended June 30 2006	Three months ended June 30 2005	Six months ended June 30 2006	Six months ended June 30 2005
Gross revenue		1,564	1,397	2,780	2,695
Cost of products sold (exclusive of depreciation and amortization shown separately below)		(908)	(830)	(1,631)	(1,639)
Depreciation and amortization		(47)	(45)	(89)	(87)
Selling and distribution expenses		(110)	(53)	(191)	(84)
Administrative expenses		(75)	(64)	(134)	(119)
Social costs		(18)	(9)	(31)	(17)
Taxes other than income taxes		(17)	(14)	(25)	(24)
Change in allowance for doubtful accounts receivable and other provisions		2	(3)	4	4
Loss on disposal of property, plant and equipment		(4)	(2)	(6)	(3)
Other operating income		11	2	13	3
Income from operating activities		**398**	**379**	**690**	**729**
Equity in loss from affiliates		(2)	(1)	(4)	(2)
Interest expense		(13)	(17)	(27)	(40)
Net foreign exchange gain/(loss)		42	(42)	89	(43)
Interest income		13	24	31	55
Income before tax and minority interest		**438**	**343**	**779**	**699**
Income taxes		(99)	(77)	(191)	(178)
Income before minority interest		**339**	**266**	**588**	**521**
Minority interest		1	2	-	2
Net income		**340**	**268**	**588**	**523**
Basic and diluted earnings per common share (USD)	9	-	-	**0.058**	**0.051**
Basic and diluted earnings per preferred share (USD)	9	-	-	**-**	**0.051**

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, 2006 AND 2005 (UNAUDITED)

(Amounts in millions of U.S. dollars)

	Notes	Six months ended June 30, 2006	Six months ended June 30, 2005
Operating activities			
Net income		588	523
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization		89	87
Loss on disposal of property, plant and equipment		6	3
Change in allowance for doubtful accounts receivable and other provisions		(4)	(4)
Gain on disposal of investments		(2)	(6)
Net deferred tax charge/(benefit)		1	(7)
Equity in loss of affiliate companies		4	2
Minority interest		-	(2)
Operating profit before changes in working capital		**682**	**596**
Changes in operating assets and liabilities:			
Increase in inventories		(23)	(107)
Increase in trade and other receivables		(88)	(97)
Increase/(decrease) in trade and other payables		83	(85)
Increase in income taxes payable		6	143
Net cash provided by operating activities		**660**	**450**
Investing activities			
Proceeds from sale of property, plant and equipment		5	7
Proceeds on disposal of discontinued operations	4	5	-
Acquisition of investments in affiliates		(5)	(30)
Advance paid for the purchase of Pakistan Steel Mills Corporation	13	(37)	-
Acquisition of property, plant and equipment		(299)	(300)
Acquisition of intangible assets		(11)	(8)
Net cash flow from other investments		(28)	51
Net cash used in investing activities		**(370)**	**(280)**
Financing activities			
Proceeds from borrowings		652	494
Repayments of borrowings		(440)	(985)
Net increase in bank overdrafts		1	3
Acquisition of treasury stock		(4)	(20)
Proceeds from re-issuance of treasury stock, net of tax paid		7	-
Payments made under capital leases		(13)	(15)
Dividends paid		(423)	(483)
Net cash used in financing activities		**(220)**	**(1,006)**
Effect of exchange rate changes on cash and cash equivalents		5	4
Net increase/(decrease) in cash and cash equivalents		**75**	**(832)**
Cash and cash equivalents at beginning of period		1,138	1,884
Cash and cash equivalents at end of period		**1,213**	**1,052**
Supplementary information			
Interest paid		(22)	(42)
Income tax paid		(184)	(194)
Non-cash investing and financing activities			
Equipment acquired under capital leases		21	14

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 STOCKHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

(Amounts in millions of U.S. dollars)

	Common stock	Preferred stock	Convertible preferred stock	Common treasury stock	Preferred treasury stock	Additional paid- in capital	Retained earnings	Total
Balance at January 1, 2005	**272**	**91**	**-**	**(11)**	**(19)**	**247**	**3,148**	**3,728**
Share swap	-	(91)	91	-	-	-	-	-
Acquisition of treasury stock	-	-	-	(5)	(15)	-	-	(20)
Dividends	-	-	-	-	-	-	(513)	(513)
Net income	-	-	-	-	-	-	523	523
Balance at June 30, 2005	**272**	**-**	**91**	**(16)**	**(34)**	**247**	**3,158**	**3,718**
Balance at January 1, 2006	**363**	**-**	**-**	**(64)**	**-**	**247**	**3,131**	**3,677**
Acquisition of treasury stock	-	-	-	(4)	-	-	-	(4)
Re-issuance of treasury stock	-	-	-	2	-	5	-	7
Dividends	-	-	-	-	-	-	(420)	(420)
Net income	-	-	-	-	-	-	588	588
Balance at June 30, 2006	**363**	**-**	**-**	**(66)**	**-**	**252**	**3,299**	**3,848**

See notes to the condensed consolidated interim financial statements

1. BACKGROUND

Organisation and operations

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 ("MMK" or "the Parent Company") and its 58 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,
Russia

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 privatisation 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 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. BASIS OF PREPARATION

Statement of compliance

The accompanying condensed consolidated interim financial statements have been prepared in compliance with accounting principles generally accepted in the United States of America ("US 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 at and for the year ended December 31, 2005. 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, 2005.

Foreign currency translation

The national currency of the Russian Federation is the Russian Rouble. The Group has assessed its operations in the Russian Federation and determined its functional currency to be the US dollar. The US dollar is also the reporting currency for the Group under US GAAP.

Monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates which approximate actual rates at the date of the transaction. Translation 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, 2006 and December 31, 2005, exchange rates of 27.08 and 28.78 Russian Roubles to the US dollar, respectively, have been used for translation purposes. The weighted average exchange rate for the six months ended June 30, 2006 and 2005 was 27.64 and 27.96 respectively.

The Russian Rouble is not readily convertible outside the Russian Federation. Accordingly, the translation of amounts recorded in Russian Roubles into US dollars should not be construed as a representation that the Russian Rouble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

Use of estimates

The preparation of the condensed consolidated interim financial statements 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. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill; valuation allowances for receivables, inventories and deferred income tax assets. Actual results could differ from those estimates.

3. SEGMENT INFORMATION

The Group predominately produces iron and steel products, which are primarily sold to traders unrelated to the Group for sale on the world steel market. Geographically, all significant assets, production and management/administration facilities are located in Magnitogorsk. There have been no material changes in the mix of products or the regions in which the Group’s products were traded as compared to the year ended December 31, 2005.

4. DISCONTINUED OPERATIONS

During the six months ended June 30, 2006, the Group decided to discontinue the operations of ZAO “Shakhtouchastok Uregolskiy”, a subsidiary of the Group. On March 10, 2006 the subsidiary was sold to OJSC “Coal Company Yuzhniy Kuzbass” for a total cash consideration of USD 7.13 million. At June 30, 2006 a balance of USD 2 million is due in terms of the sale agreement.

Net assets of discontinued operations as of December 31, 2005 were comprised only of property, plant and equipment of ZAO “Shakhtouchastok Uregolskiy”, with a net book value of USD 7 million. The balance sheet at this date has been reclassified to separately report these assets. No significant gain/loss arose during the periods presented.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Corporate Bonds

In October 2003, MMK Finance S.A., a wholly-owned subsidiary of the Group, issued on the Luxembourg Stock Exchange $300 million 8% notes, at an issue price of 98.992 per cent, due in October 2008. These notes are unconditionally and irrevocably guaranteed by OJSC “MMK”. Interest on the notes is payable semi-annually in arrears in equal installments on 21 April and 21 October in each year, commencing 21 April 2004. These 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.

On April 18, 2006 a coupon of USD 12 million was paid to the bond holders.

Long-term bank loans

During the six months ended 30 June 2006 the Group obtained unsecured long-term borrowings as follows:

- USD 5 million, due to mature in 2011, at an effective interest rate of 5.4%;
- USD 5 million, due to mature in 2011, at an effective interest rate of 6.3%;
- USD 20 million, due to mature in 2011, at an effective interest rate of 5.8%;
- USD 27 million, due to mature in 2011, at an effective interest rate of 5.9%;

In May 2006 the Group entered into a general purpose syndicated credit agreement with foreign banks. The total loan facility of USD 145 million, bearing interest at an effective rate of 6.33% and due to mature in June 2009, was fully drawn in May 2006.

During the six months ended 30 June 2006 the Group repaid unsecured long-term borrowings of USD 20 million.

6. EMPLOYEE BENEFITS

Defined contribution obligations

The Group makes monthly contributions to a non-government pension fund “Sotsialnaya Zashchita Starosti” where the employee has an individual accumulation agreement 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 will be 1.5 times the employee’s contribution. The monthly contribution by the Group may not exceed RUB 6,000 (USD 222) per employee. During the six months ended June 30, 2006 contributions made by the Group to the fund were USD 2 million (six months ended June 30, 2005: USD 1 million).

(In millions of US dollars, unless otherwise stated)

Russian Federation State Pension Fund

The Group pays into the Russian Federation State Pension Fund a percentage of each employee's wage based on a scale as established by the Russian Tax Code. During the six months ended June 30, 2006 total payments made to the state pension fund were USD 28 million (six months ended June 30, 2005: USD 25 million). These amounts are expensed when incurred and are recorded in taxes related to personnel expenses.

Defined benefit obligations

The Group also has a defined benefit plan in favour of employees who retired prior to April 1, 2000. Pensions from this defined benefit plan are administered by the independent charity fund, "BOF Metallurg".

The Group makes monthly payments to the fund of RUB 327 (USD 12.08) per retiree every month, which are then distributed by the fund to retirees. The fund does not hold any assets set aside for the benefit of retirees under this plan.

The pension related expenses and gains were as follows:

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Interest costs	-	1	1	2
Actuarial gain	-	(1)	(2)	(4)
Foreign exchange gain	1	(1)	2	(1)
Total net pension related gains	**1**	**(1)**	**1**	**(3)**

Current service costs and actuarial gains and losses are recognized in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income.

7. NON-CURRENT BANK DEPOSITS

As at June 30, 2006 the Group has a long term subordinated cash deposit of USD 106 million (2005: USD 99 million) placed in a Russian bank, which is not available to be withdrawn from the bank until 15 December 2009.

8. STOCKHOLDERS' EQUITY

Treasury stock

During the six months ended June 30, 2006 the Group re-issued 12,000 thousand shares of the Parent Company's common stock for USD 7 million and recorded decreases in treasury stock of USD 2 million, and increases in additional paid-in capital of USD 5 million.

Dividends

On April 21, 2006 MMK declared dividends in respect of the year ended December 31, 2005 of RUB 0.532 (USD 0.019) per common share representing total dividends declared of USD 206 million. Of this amount of dividends declared, USD 9 million was attributable to other Group companies, and USD 192 million was paid to shareholders in April 2006. The remaining balance will be settled in subsequent periods.

On May 26, 2006 MMK 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 total dividends declared of USD 233 million. Of this amount of dividends declared, USD 10 million was attributable to other Group companies, and USD 217 million was paid to shareholders in May 2006. The remaining balance will be settled in subsequent periods.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share as of June 30, 2006 was based on the distributed and undistributed earnings attributable to common and preferred stockholders and the weighted average number of common and preferred stock outstanding during the period then ended, calculated as follows:

Net income attributable to common and preferred stockholders

	Six months ended June 30, 2006	Six months ended June 30, 2005
Net income for the period	588	523
Dividends on common stock	(420)	(385)
Dividends on non-redeemable non-cumulative preferred stock	-	(128)
Undistributed earnings	**168**	**10**
Undistributed earnings attributable to common stockholders	168	7
Undistributed earnings attributable to preferred stockholders	-	3

Weighted average number of common stock

In thousands of shares	Six months ended June 30, 2006	Six months ended June 30, 2005
Issued common stock	10,630,222	7,972,666
Effect of own stock held	(467,281)	(339,496)
Weighted average number of common shares	**10,162,941**	**7,633,170**

Weighted average number of preferred stock

In thousands of shares	Six months ended June 30, 2006	Six months ended June 30, 2005
Issued preferred stock	-	2,657,556
Effect of own stock held	-	(84,078)
Weighted average number of preferred shares	**-**	**2,573,478**

Basic and diluted earnings per share – common stock

In USD per share	Six months ended June 30, 2006	Six months ended June 30, 2005
Distributed earnings	0.041	0.050
Undistributed earnings	0.017	0.001
	0.058	**0.051**

Basic and diluted earnings per share – preferred stock

In USD per share	Six months ended June 30, 2006	Six months ended June 30, 2005
Distributed earnings	-	0.050
Undistributed earnings	-	0.001
	-	**0.051**

10. CONCENTRATION OF RISK

Significant customer

During the six months ended June 30, 2006, the Group made sales of USD 102 million (six months ended June 30, 2005: USD 572 million) to MMK Metal Limited, a customer which trades in MMK's steel products on the export market. These sales represented 4% (six months ended June 30, 2005: 21%) of the Group's total revenue. As of the balance sheet date MMK Metal Limited owed the Group USD 83 million (December 31, 2005: USD 80 million).

No individual customer represented more than 10% of the Group's revenue during the six months ended June 30, 2006.

(In millions of US dollars, unless otherwise stated)

Significant deposit

As of the balance sheet date the Group had cash, cash equivalents and bank deposits amounting to USD 106 million (December 31, 2005: USD 960 million) invested in a major Russian bank.

As of the balance sheet date the Group had assets in trust with a major Russian bank of USD 635 million (December 31, 2005: USD nil). The management agreement governing the trust expires on September 8, 2006.

Significant guarantee

As of the balance sheet date the Group had provided a guarantee of USD 154 million (December 31, 2005: USD 134 million) on behalf of a related party of the Group.

11. AFFILIATE AND OTHER RELATED PARTY TRANSACTIONS

As of the balance sheet date the Group had the following investments in affiliates:

		Ownership		Voting interest	
	Country of incorporation	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
LLC MMK Trans	Russia	50%	50%	50%	50%
LLC M-Port	Russia	50%	50%	50%	50%
OJSC Kazankovskaya Mine	Russia	50%	50%	50%	50%

Transactions with enterprises in which the Directors had a financial interest

	Three months ended June 30		Six months ended June 30	
Transactions	**2006**	**2005**	**2006**	**2005**
Loans and overdrafts obtained	2	11	5	19
Loans and overdrafts repaid	6	8	10	12
Bank charges	3	3	6	6
Purchases of scrap	138	78	241	159
Domestic sales	25	13	49	36
Lease payments	3	3	6	5
Insurance payments	4	8	12	14
Loans provided	-	-	2	27
Loans repaid	2	27	2	27

(In millions of US dollars, unless otherwise stated)

Balances outstanding	**June 30, 2006**	**December 31, 2005**
Cash and cash equivalents	76	44
Loans and overdraft facilities	4	9
Trade payables	-	4
Trade receivable	1	-
Advances received	1	2
Advances paid	1	-
Insurance payable	16	1
Capital lease obligations	27	18

Transactions with affiliates of the Group

	Three months ended June 30		**Six months ended June 30**	
Transactions	**2006**	**2005**	**2006**	**2005**
Loans provided	8	7	18	7
Loans repaid	1	-	1	-
Purchases of freight services	6	3	10	9
Domestic purchases	1	4	1	7

Balances outstanding	**June 30, 2006**	**December 31, 2005**
Trade payables	2	2
Advances paid	2	3
Loans receivable	34	15

12. CONTINGENCIES

Financial guarantees

The Group has provided financial guarantees for loans obtained by certain related and third party suppliers of the Group. Amounts related to the Group's financial guarantees are as follows:

	June 30, 2006	**December 31, 2005**
Non-current		
Related parties	178	156
Third parties	28	20
Current		
Related parties	-	5
Third parties	7	2
	213	**183**

The Group's estimated maximum exposure to credit losses in the event of non-performance by the other parties to these financial guarantees is represented by the contractual amounts disclosed above. Management believes that the likelihood of material payments being required under these agreements is remote. As of June 30, 2006 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

Litigation

As of the balance sheet date the Group did not have any material unresolved adverse claims.

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 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.

Taxation contingencies

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

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

Environmental liabilities

The Group is obligated to undertake certain environmental remediation activities to ensure site restoration of a large iron ore quarry in the Magnitogorsk region. In accordance with permission granted by the Magnitogorsk Regional Ecological Committee, the Group utilises 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.

13. SUBSEQUENT EVENTS

Acquisition of Pakistan Steel Mills Corporation

On March 31, 2006 MMK participated (as part of a consortium consisting of Al-Tuwairqi and of Arif Habib Group) in an auction to acquire a 75% stake in Pakistan Steel Mills Corporation ("PSMC") which was being privatized by the Pakistan government. The auction was held on 31 March 2006 in Islamabad, Republic of Pakistan. As a result of the auction, the highest bid of USD 361.8 million was submitted by the consortium of OAO MMK, Al- Tuwairqi Group and Arif Habib Group. According to the terms of the auction, the Government of Pakistan was expected to issue a Letter of Acceptance within 30 days following the auction, confirming the success of the consortium bid.

As part of the auction an advance payment of USD 12 million was made in March 2006 to the Privatization Commission of the Government of Pakistan. A further payment of USD 25 million was made to the Commission in April 2006.

However on June 23, 2006 the Supreme Court of Pakistan cancelled the privatization of PSMC, which had been approved on May 29, 1997. This resulted in the cancellation of the PSMC purchase by the consortium of OAO MMK and other parties. Money which was transferred to the Privatization commission as advances was fully repaid in July 2006.

The advance paid for the purchase of PSMC of USD 37 million is presented as other receivables in the condensed consolidated interim balance sheet of the Group as of June 30, 2006. Cash paid was presented in the cash flow statement as part of investing activities.

Trust management funds

On August 10, 2006 MMK entered into a trust management agreement with three Russian companies and transferred USD 67 million into the trust management funds up to August 10, 2007.

On August 29, 2006 the shareholders of MMK decided to renew the trust management agreement with a major Russian bank (see note 10) for USD 415 million until December 31, 2006.

Dividends

On August 29, 2006 MMK declared an additional interim dividend of RUB 0.815 (USD 0.03) per common share in respect of the six months ended June 30, 2006 representing total dividends declared of USD 324 million. Of this total amount of dividends declared, USD 14 million is attributable to other Group companies.