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Open joint stock company
NOVOLIPETSK IRON AND STEEL CORPORATION

Consolidated financial statements
December 31, 2001 and 2000

(with Independent Auditors' Report thereon)

Contents

Independent Auditors' Report

Board of Directors
OJSC Novolipetsk Iron and Steel Corporation

We have audited the accompanying consolidated balance sheets of open joint stock company Novolipetsk Iron and Steel Corporation and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, stockholders' equity and other comprehensive income and cash flows for the years then ended. These consolidated financial statements, as set out on pages 4 to 27, are the responsibility of the management of open joint stock company Novolipetsk Iron and Steel Corporation. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of open joint stock company Novolipetsk Iron and Steel Corporation and its subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 5, 2002

OJSC NOVOLIPETSK IRON AND STEEL CORPORATION
Consolidated balance sheets as of December 31, 2001 and 2000
(All amounts in thousands of US dollars, except for share data)

	2001	2000
ASSETS		
Current assets		
Cash and cash equivalents	190,029	159,196
Accounts receivable, net of allowance for doubtful debts	240,020	236,402
Amounts due from employees, affiliates and other related parties	1,082	840
Inventories	180,030	163,982
Other current assets	5,529	2,333
	616,690	**562,753**
Non-current assets		
Available for sale securities	4,186	3,215
Investments in affiliates and non-marketable securities	70,026	16,919
Property, plant and equipment, net book value	1,174,682	1,197,203
Other non-current assets	29,659	47,191
Goodwill	997	1,049
	1,279,550	**1,265,577**
Total assets	**1,896,240**	**1,828,330**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term borrowings	92,367	24,137
Accounts payable and accrued expenses	89,725	118,145
Amounts due to employees, affiliates and other related parties	18,510	11,266
Income tax payable	10,266	5,798
	210,868	**159,346**
Non-current liabilities		
Long term borrowings	3,162	68,123
Deferred income	-	2,113
Deferred income tax	19,780	27,957
	22,942	**98,193**
Minority interest	**10,407**	**7,655**
Stockholders' equity		
Common stock, 1 RUB par value – 5,985,241 shares authorized, and issued, including 5,985,241 and 5,980,853 shares outstanding at December 31, 2001 and 2000, respectively	14,435	14,435
Preferred stock, 1 RUB par value – 1,999 shares authorized, issued and outstanding at December 31, 2001 and 2000, respectively	5	5
Additional paid-in capital	680	680
Accumulated other comprehensive income	2,986	1,699
Retained earnings	1,633,917	1,546,385
Treasury stock, at cost, 4,388 shares at December 31, 2000	-	(68)
	1,652,023	**1,563,136**
Total liabilities and stockholders' equity	**1,896,240**	**1,828,330**

Commitments and contingencies (refer note 22)

The consolidated financial statements as set out on pages 4 to 27, were approved on June 4, 2002.

Chief executive
Frantsenjuk I.V.

Chief accountant
Sokolov A.A.

OJSC NOVOLIPETSK IRON AND STEEL CORPORATION

Consolidated statements of income for the years ended December 31, 2001 and 2000
(All amounts in thousands of US dollars, except for earnings per share amounts)

	2001	2000
Net sales	1,322,431	1,374,053
Cost of sales	(1,048,635)	(894,540)
Gross profit	**273,796**	**479,513**
Selling, general and administrative expenses	(68,432)	(118,645)
Loss on disposals of property, plant and equipment	(15,600)	(462)
Operating income	**189,764**	**360,406**
Gain/(loss) on disposals of investments	542	(12,453)
Net interest income/(expense)	6,315	(7,119)
Foreign currency exchange loss, net	(21,428)	(11,219)
Other expense	(12,710)	(18,693)
Equity share in income of affiliates	109	-
Income before income tax and minority interest	**162,592**	**310,922**
Minority interest	455	520
Income before income tax	**163,047**	**311,442**
Income tax expense	(75,515)	(148,352)
Net income	**87,532**	**163,090**
Earnings per share of common stock (US dollars)		
basic	14.63	27.27
diluted	14.62	27.26

OJSC NOVOLIPETSK IRON AND STEEL CORPORATION

Consolidated statements of stockholders' equity and comprehensive income for the years ended December 31, 2001 and 2000 (Thousands of US dollars)

	Common stock	Preferred stock	Additional paid in capital	Other comprehensive income	Retained earnings	Treasury stock	Total
Balance at December 31, 1999	**14,435**	**5**	**680**	**768**	**1,383,295**	**(88)**	**1,399,095**
Net income					163,090		163,090
Net unrealized gain on available for sale securities				931			931
Acquisition of treasury stock						(322)	(322)
Sale of treasury stock						342	342
Balance at December 31, 2000	**14,435**	**5**	**680**	**1,699**	**1,546,385**	**(68)**	**1,563,136**
Net income					87,532		87,532
Net unrealized gain on available for sale securities				1,287			1,287
Sale of treasury stock						68	68
Balance at December 31, 2001	**14,435**	**5**	**680**	**2,986**	**1,633,917**	**-**	**1,652,023**

OJSC NOVOLIPETSK IRON AND STEEL CORPORATION
Consolidated statements of cash flows for the years ended December 31, 2001 and 2000
(Thousands of US dollars)

	2001	2000
OPERATING ACTIVITIES		
Net income	**87,532**	**163,090**
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest	(455)	(520)
Equity share in income of affiliates	(109)	-
Depreciation and amortization	159,688	149,112
Loss on disposals of property, plant and equipment	15,600	462
Gain/(loss) on disposals of investments	(542)	12,453
Net change in interest accrued	946	7,204
Deferred income tax benefit	(8,177)	(18,891)
Changes in operating assets and liabilities		
Increase in accounts receivable	(3,618)	(27,856)
Increase in amounts due from employees, affiliates and related parties	(242)	(932)
Increase in inventories	(16,048)	(44,989)
Increase in other current assets, excluding short-term financial investments	(2,453)	(1,299)
(Decrease)/increase in accounts payable and accrued expenses	(28,420)	25,117
Increase/(decrease) in income tax payable	4,468	(11,910)
Increase in amounts due to employees, affiliates and related parties	6,587	8,075
Net cash provided by operating activities	**214,757**	**259,116**
INVESTING ACTIVITIES		
Proceeds from sales of property, plant and equipment	3,284	8,628
Purchase of property, plant and equipment and other non-current assets	(140,579)	(172,818)
Proceeds from sale of assets held for resale	-	125,964
Proceeds from sale of investments in affiliated and non-marketable securities	1,494	5,305
Purchase of investments in affiliated and non-marketable securities	(54,071)	(18,999)
Purchase of short-term investments	(427)	(808)
Net cash used in investing activities	**(190,299)**	**(52,728)**
FINANCING ACTIVITIES		
Proceeds from issuance debt	4,645	9,348
Repayment of borrowings	(1,666)	(68,729)
Proceeds from issuance of stock in subsidiaries to minority holders	3,316	-
Proceeds from sale of treasury stock	80	343
Purchases of treasury stock	-	(124)
Net cash provided by/(used in) financing activities	**6,375**	**(59,162)**
Net increase in cash and cash equivalents	**30,833**	**147,226**
Cash and cash equivalents at beginning of year	159,196	11,970
Cash and cash equivalents at end of year	**190,029**	**159,196**
Supplemental disclosures of cash flow information:		
Income taxes paid	99,756	179,225
Interest paid	901	790

1. Background

(a) Organization and operations

Open joint stock company Novolipetsk Iron and Steel Corporation ("the Company" or the "Parent company") and its subsidiaries (together "the Group") is one of the largest iron and steel holdings in the Russian Federation with an entire steel production cycle. The Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent company was originally established as a State owned enterprise in 1934 and was privatized on January 28, 1993. On August 12, 1998 the Company's name was reregistered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Company's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings. These products are sold both in the Russian Federation and abroad.

The Group's main operations are in the Lipetsk region of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the Lipetsk regional authorities.

The Company's primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, are:

- Trading company Stahl Ltd., Uglich, Yaroslavhl region, was established in 1998 as a 100% subsidiary of the Company. The principal activity of this company is the purchase of raw materials for the Group's metallurgical production and sales of metal products.
- Mining company OJSC Combinat KMAruda, Gubkin, Belgorod region, was purchased by the Group in 2000. The principal activity of the company is mining, processing of iron-ore raw concentrate for the metallurgical production.
- Mining company OJSC Dolomite, Dankov, Lipetsk region. A controlling interest by the Group was acquired in 1997. The principal activity is mining and processing of metallurgical dolomite for the Group's metallurgical production.
- Mining company OJSC Studenovskaya joint stock mining company, Lipetsk. A controlling interest by the Group was acquired in 1999. The principle activity is mining and processing of fluxing limestone for the Group and other companies of metal industries.
- Commercial bank OJSC Lipetskcombank, Lipetsk. A controlling interest was acquired by the Group in 2000. The bank possesses a general license from the Central bank of the Russian Federation, a license for foreign currency operations and a license for brokerage activity. The bank provides general banking services for commercial and retail customers.

(b) 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 consolidated 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.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Accounting records

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of US GAAP.

(c) Functional and reporting currency

The accounting records of the Group are maintained in Russian rubles and the Company prepares its statutory financial statements and reports in that currency to its shareholders in accordance with the laws of the Russian Federation.

As the Russian economy is considered to be hyperinflationary, the US dollar is the functional and reporting currency of the Group in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, *Foreign Currency Translation*.

Monetary assets and liabilities have been measured into US dollars at the exchange rates prevailing at each balance sheet date. Non-monetary assets including fixed assets and liabilities have been measured into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at weighted average rates for the periods of the transactions. Foreign currency transaction gains and losses are included in the consolidated income statement.

The Central bank of the Russian Federation closing rate of exchange ruling at December 31, 2001 and 2000 was 1 US dollar to 30.14 Russian rubles and 1 US dollar to 28.16 Russian rubles, respectively. The annual weighted average exchange rate was 29.16 and 28.12 Russian rubles to the US dollar for the years ended December 31, 2001 and 2000, respectively.

(d) Convertibility of the Russian ruble

The Russian ruble is not a convertible currency outside the Russian Federation. Accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(e) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(f) Consolidation

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest and which the Company controls, are included with the financial position and results of the Company in these consolidated financial statements. Other equity investments in companies of which the Company directly or indirectly owns no less than 20% and no more than 50% and over which the Company exercises significant influence but not control, are accounted for using the equity method. All significant intercompany transactions have been eliminated upon consolidation.

3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with US GAAP. Actual results could differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on deposit and other highly liquid short term investments with original maturities of less than three months.

(c) Accounts receivable

Receivables are stated at cost less allowance for doubtful debts. Management quantifies this provision based on current information regarding the customers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(d) Inventories

Inventories are stated at the lower of cost or market value. The cost of inventories is based on the weighted average principle and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition.

(e) Available for sale securities

Available for sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available for sale securities are determined on a specific identification basis.

Available for sale securities consist of Government bonds recorded at their fair value determined as average offer price for the last trading day. Unrealized gains and losses, determined as a difference at the balance sheet date between purchase price and fair value of the securities, are taken directly to equity and included in accumulated other comprehensive income.

(f) Investments in affiliates and non-marketable securities

(i) Investments in affiliates

Affiliates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in affiliated companies are accounted for using the equity method of accounting and the consolidated financial statements include the Group's share of the total recognized gains and losses of affiliates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(ii) Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provision for any permanent diminution in value.

(g) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer note 3 (k)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

The cost of property, plant and equipment purchased or constructed prior to 1992 was determined with the assistance of an independent appraiser. The valuer provided US dollar estimates of historical cost and depreciated historical cost of the Company's fixed assets. These historical cost estimates were necessary due to the absence of reliable US GAAP accounting records and impairment calculations.

Property, plant and equipment also includes assets under construction, i.e. various construction projects and the equipment for installation.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized in the income statement as incurred.

(iii) Capitalized interest

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates, and is amortized over the asset's useful life.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of property, plant and equipment being put into operation. The range of estimated useful lives is as follows:

Asset class	Useful life
Buildings	20 - 45 years
Machinery and equipment	2 - 40 years
Vehicles	5 - 25 years
Software	6 - 12 years

(h) Land ownership

The Company holds the perpetual rights to use land and pays annual land taxes. The Group also pays the municipal government rent payments on properties occupied by certain smaller divisions of the Group. Currently, there are no limitations on the period or usage of the land by the Group.

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortization. Goodwill is amortized on a straight-line basis from the date of initial recognition, for a period not to exceed 20 years. The carrying amount of goodwill in affiliated companies is included in the carrying amount of the investment in the affiliates.

(j) Intangible assets

Intangible assets consist of patents and trademarks, which are carried at historical cost less any accumulated amortization and any accumulated impairment losses (refer note 3 (k)). As control over the assets is achieved through legal rights with a finite period, their useful lives do not exceed the period of the legal rights, which is from 6 to 25 years.

(k) Impairment

The Group accounts for long lived assets and certain identifiable intangible assets, including goodwill, in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.* This statement requires recognition of impairment losses whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such an asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognized in the consolidated income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

(l) Pension and post retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation, which requires contributions by the employer calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Company also sponsors other post retirement benefits for its employees. All of these benefits are part of an annually negotiated Trade Union agreement. These benefits do not vest and may be cancelled when the Trade Union agreement is negotiated annually.

The Group companies have an agreement with a non-government pension fund in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in a fund during the employment period and distributed by the fund afterwards. As such, all abovementioned benefits are considered to be a defined contribution plan and are charged to expense as incurred.

In addition, the Group pays lump sum retirement benefits depending on the employment period and the salary level of the individual employee. Up to January 2000 such benefits were irregular. In 2001 and 2000 the related obligations to the Group's employees were assessed by the Group's management and accrued in the consolidated financial statements. The scheme is a defined benefit plan.

(m) Long term borrowings

Long-term borrowings are recognized initially at cost, net of any transaction costs incurred.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated income statement.

(n) Accrued and contingent liabilities

An accrual is recognized in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the assessment and/or remediation can be reasonably estimated.

The Group calculates the environmental liability in accordance with applicable legal requirements. An accrual in respect of environmental obligation is recognized in full when it first occurs.

(o) Income tax

Income tax for the year comprises current and deferred tax. Deferred tax is provided using the balance sheet method according to SFAS No. 109, *Accounting for Income Taxes,* providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A deferred tax asset is recognized for all temporary differences to the extent that it is more likely than not that taxable profit will be available against which the deductible temporary differences can be utilized. When uncertainties exist regarding the realization of deferred tax assets, a valuation allowance is established to reduce the assets to their net realizable value.

(p) Stockholders' equity

(i) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(ii) Treasury stock

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are presented as a deduction from total equity.

(q) Revenue recognition

(i) Goods sold and services rendered

Revenue from the sale of goods is recognized in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Rental income

Rental income from investment property is recognized in the consolidated income statement on a straight-line basis over the terms of the lease.

(iii) Interest income

Interest income is recognized in the consolidated income statement on an accrual basis.

(iv) Dividend income

For investments in affiliates, dividend income is included in the determination of the equity income from the affiliates. For investments in other companies, dividend income is recognized in the consolidated income statement on the date that the dividend is declared.

(r) Non cash settlement arrangements

The environment in the Russian Federation gives rise to numerous barter and mutual offset transaction agreements with customers and suppliers. A common element is identified and goods are shipped between the parties at an agreed market value, without physical movement of cash. The related sales and purchases are recorded in the same manner as cash transactions. Management estimates that approximately $10,000 and $48,000 of the Group's 2001 and 2000 revenues, respectively, were settled in the form of mutual offset with the Group receiving raw materials and other related production materials as settlement for finished goods shipments. Prices for goods sold and purchased through non cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

(s) Related parties

The following are considered to be related parties:

- the Group's principal owners and their immediate families;
- the enterprises and trusts for the benefits of the employees, including pension and profit sharing trusts that are managed by or under the trusteeship of the Group's management;
- directors and officers of the Group and their immediate families;
- enterprises in which principal shareholders, officers and directors and their immediate families have control or significant influence;
- other parties if they can control or significantly influence the Group to the extent that the Group might be prevented from fully pursuing its own separate interest.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

(t) Segment information

All main activities of the Group are located within the Russian Federation and its major operating segment is the production and sale of metals.

(u) Recently issued accounting standards

In June 2001, the FASB issued SFAS No. 141, *Business Combinations.* SFAS No. 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and applies to all business combinations accounted for by the purchase method that are completed after June 30, 2001. The standard has had no impact on the consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets.* Under SFAS No. 142, goodwill and certain intangible assets will no longer be amortized, but will be subject to annual impairment tests. SFAS No. 142 applies to fiscal years beginning after December 15, 2001. The Group will adopt the standards in the financial year beginning January 1, 2002 and is currently assessing the impact.

In July 2001, the FASB issued SFAS No.143, *Accounting for Asset Retirement Obligations.* SFAS No.143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement obligation should be amortized to expense using a systematic and rational method. The standard is effective for fiscal years beginning after June 15, 2002. The Group will adopt the standard in the financial year beginning January 1, 2003 and is currently assessing the impact.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which addresses financial accounting and reporting for the impairment of long-lived assets to be disposed of. The standard supersedes, with exceptions, SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,* and is effective for fiscal years beginning after December 15, 2001. The Group will adopt the standard in the financial year beginning January 1, 2002 and is currently assessing the impact.

(v) Comparative information

Certain prior year amounts have been reclassified to conform with current year presentation.

(Thousands of US dollars)

4. Cash and cash equivalents

	2001	2000
Cash – Russian rubles	10,164	11,721
Cash – foreign currency	32,741	2,413
Deposits – Russian rubles	-	3,965
Deposits – foreign currency	145,397	137,270
Other cash equivalents	1,727	3,827
	190,029	**159,196**

Cash and cash equivalents as at December 31, 2001 and 2000 include the amounts of obligatory reserve of $1,500 and $2,100, respectively, placed with the Central Bank of the Russian Federation by a subsidiary bank in accordance with statutory requirements for credit institutions, and letters of credit amounting to $1,517 and $319, respectively.

5. Accounts receivable

	2001	2000
Trade accounts receivable	152,913	213,603
Advances given to suppliers	20,738	15,820
Taxes receivable other than income tax	51,021	20,412
Other accounts receivable	27,053	15,369
	251,725	265,204
Allowance for doubtful debts	(11,705)	(28,802)
	240,020	**236,402**

The activity in the allowance for doubtful debts is as follows:

	2001	2000
Allowance for doubtful accounts – beginning of the year	(28,802)	(36,323)
Additions charged to selling, general and administrative expenses	(2,640)	(2,409)
Write downs charged against the allowance	1,836	9,930
Recoveries of amounts previously written off	17,901	-
Allowance for doubtful debts – end of the year	**(11,705)**	**(28,802)**

As at December 31, 2001 and 2000 the Group had a receivable from one debtor Tuscany Intertrade (UK), which individually exceeded 10% of the gross accounts receivable balances. The outstanding balances owed by this debtor totaled $107,100 and $94,419 at December 31, 2001 and 2000, respectively.

6. Amounts due from employees, affiliates and other related parties

	2001	2000
Trade accounts receivable	180	90
Accounts receivable from employees	902	750
	1,082	**840**

(Thousands of US dollars)

7. Inventories

	2001	2000
Finished goods and goods for resale	30,620	25,993
Work in process	29,875	36,322
Raw materials	119,535	101,667
	180,030	**163,982**

8. Available for sale securities

As at December 31, 2001 and 2000 the available for sale securities consist of Russian Government OVVZ and OFZ securities.

	2001	2000
Cost	1,200	1,516
Gross unrealized holding gains	2,986	1,699
Fair value	**4,186**	**3,215**

The redemption dates for 69% of the non-current state bonds are in one to five years and for 31% – after five years.

Russian Government OVVZ securities with a face value of $3,180 are pledged to a bank to secure the redemption of own promissory notes issued in 2000 for the purchase of shares in CJSC Korpus (refer note 9). These promissory notes are denominated in Russian rubles and mature in 2008.

9. Investments in affiliates and non-marketable securities

(a) Investments in affiliates

	2001 Ownership	2000 Ownership	2001	2000
OJSC Commercial Bank Zenit	20.00%	-	13,714	-
CJSC Korpus	40.00%	40.00%	3,042	3,151
OJSC Lipetsky Gipromez	43.44%	43.44%	7	7
CJSC Stalconverst	36.80%	36.80%	-	-
AKB Lipetskcredit	22.19%	22.19%	-	-
OJSC Avron	26.70%	26.70%	-	-
OJSC Bryanskmetallresources	28.30%	28.30%	-	-
			16,763	**3,158**

As a part of the acquisition agreement concerning shares of OJSC Bank Zenit (the "Bank"), the Company has the right to sell the shares as soon as "the conditions of necessary sale" arise. The shares have been pledged to the related party of the Bank to secure the undertaking of the Group that the Bank's management has a pre-emptive purchasing right.

(Thousands of US dollars)

(b) Non-marketable securities

	2001 Ownership	2000 Ownership	2001	2000
OJSC Coal Mining Company Kuzbassugol	17.70%	-	39,787	-
OJSC Lebedinsky GOK	11.96%	11.96%	8,546	8,546
OJSC Yakovlevsky rudnik	9.48%	9.48%	5,372	5,372
OJSC Lipetskenergo	12.21%	11.34%	2,102	1,939
OJSC Lipetskoblgaz	19.40%	19.40%	644	644
OJSC Almetievsky pipe plant	14.53%	-	516	-
OJSC Moscow pipe plant "Filit"	12.00%	12.00%	392	392
OJSC Kriogenmash	-	19.00%	-	702
Other			1,497	1,759
			58,856	19,354
Provision for permanent diminution in value			(5,593)	(5,593)
			53,263	**13,761**
Total investments in affiliates and non-marketable securities			**70,026**	**16,919**

10. Property, plant and equipment

	2001	2000
Buildings	506,579	497,172
Machinery and equipment	3,936,362	3,916,709
Transport equipment	96,166	92,102
Construction in progress	89,952	56,551
Land improvement	198,480	198,515
Other	10,674	5,745
	4,838,213	4,766,794
Accumulated depreciation	(3,663,531)	(3,569,591)
	1,174,682	**1,197,203**

11. Discontinued operations

In June 2000, the Group concluded a conditional agreement to sell its fully owned subsidiary Refrigerator Plant Stinol, which produces refrigeration units for the Russian market. This asset was valued at $125,964.

During 2000, the parties concluded the legal execution and payments for that operation.

(Thousands of US dollars)

12. Debt

Short term debt

	2001	2000
8% US dollar promissory notes at nominal cost	76,966	-
US dollar loan	12,207	24,137
	89,173	24,137
Other short-term debts	3,194	-
	92,367	**24,137**

Long term debt

	2001	2000
US dollar loan	-	64,090
Interest free Russian ruble promissory notes issued	2,986	3,197
Other long-term debts	176	836
	3,162	**68,123**

In prior periods the Company borrowed funds from a Russian lender to finance the construction of the Refrigerator Plant Stinol. In 1999 the loan, including interest capitalized, was transferred from a Russian lender to one of the Company's shareholders. The total amount in respect to this transaction of principal debt and related interest as at December 31, 2000 amounted to $88,227.

In 2001 the Company's management concluded an agreement with the creditor on the novation of the debt by means of issuance and transfer of the Company's own ordinary 8% interest bearing promissory notes with a face value of $89,173, including $946 of interest charged till the date of novation, March 30, 2001.

As at December 31, 2001 the novation agreement was only partially implemented, with promissory notes issued with a face value of $76,966 in exchange for the equal amount of the Group's previous debt. The remaining portion of the novation agreement was implemented in 2002.

13. Accounts payable and accrued expenses

	2001	2000
Accounts payable	43,691	72,614
Advances received	22,300	16,294
Taxes payable other than income tax	7,207	11,880
Accrued expenses	3,060	4,780
Other payables	13,467	12,577
	89,725	**118,145**

(Thousands of US dollars)

14. Amounts due to employees, affiliates and other related parties

	2001	2000
Trade payables	362	270
Short-term loan	2,186	-
Accounts payable to employees	15,962	10,996
	18,510	**11,266**

15. Stockholders' equity

(a) Stock

The Company has 5,987,240 shares issued with a par value of 1 Russian ruble. Of these shares, 1,999 are preferred stock (type B). The holder of the preferred stock is the Russian Federal Property Fund. When the fund disposes of the preferred stock, the shares automatically convert to common stock.

(b) Voting rights, privileges and liquidation

All common stock has voting rights. The preferred stock do not have voting rights, except in situations concerned with re-organization and liquidation of the Company, changes and amendments to the Charter document that restrict their rights and in other cases stipulated by the effective Russian legislation.

Upon liquidation of the Company all creditors' requests are to be satisfied, property is to be sold through auction and any remaining proceeds should be distributed proportionally between preferred and common stockholders.

(c) Dividends

Dividends may be paid on common stock at the recommendation of the Board of Directors and approval at the annual stockholders' meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to common stockholders in respect of any reporting period are determined to by reference to the statutory financial statements of the Parent company. At December 31, 2001 and 2000 the reserves available for distribution amount to $633,063 and $481,780 respectively, converted into US dollars using the year-end exchange rate. No dividends on common shares were declared in 2001 or 2000.

In accordance with the Charter document the dividend on each preferred stock is 20% of its nominal value, but not less than the dividend on one common stock. In 2001, a preferred stock dividend was paid in the amount of $13.

16. Cost of sales

	2001	2000
Production cost	888,947	745,428
Depreciation and amortization	159,688	149,112
	1,048,635	**894,540**

(Thousands of US dollars)

17. Selling, general and administrative expenses

	2001	2000
Taxes other than income tax	25,297	67,140
Selling expenses	21,999	16,966
Employee costs	11,194	9,626
Penalties and fines	1,666	5,964
Net movement in the allowance for doubtful debts	(15,261)	2,409
Other	23,537	16,540
	68,432	**118,645**

18. Income tax expense

	2001	2000
Current tax expense	83,692	167,243
Deferred tax benefit		
Origination and reversal of temporary differences	(936)	(24,864)
Foreign exchange differences	(2,581)	(2,492)
Change in tax rate	(11,353)	5,663
Change in tax loss carry forwards	6,693	2,802
	(8,177)	**(18,891)**
Total income tax expense	**75,515**	**148,352**

The corporate income tax rate was 35% and 30% in 2001 and 2000, respectively. The rate used for measuring deferred tax as at December 31, 2001 was 24% (the rate effective from January 1, 2002) and as at December 31, 2000 was 35% (the rate effective from January 1, 2001).

Reconciliation of effective tax rate:

	2001	2000
Profit before tax	163,047	311,442
Income tax at applicable tax rate	57,067	93,433
Increase/(decrease) in income tax resulting from:		
Non-deductible expenses and non taxable income	29,801	49,256
Change in tax rate	(11,353)	5,663
Income tax expense	**75,515**	**148,352**

(Thousands of US dollars)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	2001	2000
Deferred tax assets		
Investments	555	1,581
Inventories	30,147	48,268
Accounts payables and accrued liabilities	2,085	849
Other current assets	999	1,560
Valuation allowance	(480)	(1,167)
	33,306	51,091
Deferred tax liabilities		
Property, plant and equipment	(38,617)	(50,030)
Accounts receivable	(19,459)	(40,701)
	(58,076)	(90,731)
Net deferred tax liability on temporary differences	(24,770)	(39,640)
Tax loss carry forwards	4,990	11,683
Total deferred tax	**(19,780)**	**(27,957)**

Deferred tax assets have not been recognized in respect of the temporary differences, where it is not probable that future taxable profit will be available against which the Group can utilize the benefit there from.

As at December 31, 2001 the Group had net operating tax loss carry forwards of $20,791, which expire in 2003.

19. Earnings per share

Basic income per share of common stock is calculated by dividing net income by the average number of shares of common stock outstanding during the applicable period.

The calculation of diluted income per share of common stock takes into account the effect of obligations, such as convertible preferred stock, considered to be potentially dilutive.

The Company's preferred stock should be converted into common stock upon its sale.

(Thousands of US dollars)

Earnings per share of common stock is as follows (number of shares is calculated as total issued and authorized less treasury stock purchased from shareholders):

	Income 2001	Shares 2001	Income 2000	Shares 2000
Net income	87,532	5,985,241	163,090	5,980,853
Preferred stock dividend requirements	-		-	
Basic income and shares	**87,532**	**5,985,241**	**163,090**	**5,980,853**
Basic income per share (US dollars)	**14.63**		**27.27**	
Convertible preferred shares		1,999		1,999
Diluted income and shares	**87,532**	**5,987,240**	**163,090**	**5,982,852**
Diluted income per share (US dollars)	**14.62**		**27.26**	

20. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

The carrying amount of cash and cash equivalents, accounts receivable, amounts due to/from employees, associated companies and other related parties, accounts payable and accrued expenses, short term debts approximate fair value because of the short maturity of these instruments.

The fair values of available for sale securities are based on quoted market prices for these or similar instruments.

21. Concentration of significant risks

The Group's exports in monetary terms in 2001 were around 52% (2000: 63%) of the total sales of its metal production. The Group's major export markets are Asia – 29% (2000: 28%), the European Union – 27% (2000: 30%), North America – 18% (2000: 16%) and other Middle East countries including Turkey – 13% (2000: 21%). The Group relies on export sales to generate foreign currency earnings. As the Group exports the majority of its production, it is exposed to global economic and political events.

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to unexpected changes in the situation of one or more sales markets. The Group uses executive analysis of the existing and prospective markets.

The Group has two international traders that account for the majority of its export sales. In 2001, the major dealers Tuscany Intertrade (UK) and Moorfield Commodities Company purchased 84% and 7% of export sales, respectively. In 2000, the majority of the export sales were exercised through Tuscany Intertrade (UK) (46%) and Mildmay S.A. (49%).

Metraznotorg Ltd., Procatpostavka Ltd., OJSC AVTOVAZ accounted for in excess of 10% of the Group's 2001 domestic sales, Kastans Ltd., Baumet Ltd. and OJSC AVTOVAZ accounted for in excess of 10% of domestic sales in 2000. No other individual customer accounted for in excess of 10% of the Group's export or domestic sales during 2001 or 2000.

The majority of the Group's workers are covered by a Trade Union agreement, which is negotiated annually. Significant disagreements with the Trade Union and industrial action have been historically rare and management does not consider disruption caused by labor disputes to be a significant risk to the Group.

22. Related party transactions

(a) Sales to and purchases from related parties

During 2001 and 2000 the Group had the following transactions with related parties:

(i) Sales

Sales to related parties for the years ended December 31, 2001 and 2000 were $19,710 and $11,920, respectively.

(ii) Purchases

Purchases of raw materials and services from related parties for the years ended December 31, 2001 and 2000 were $27,014 and $41,635, respectively.

(b) Financing activities

As at December 31, 2001 the Company had an outstanding US dollar loan in the amount of $89,173 to a related party which was settled in 2002 (refer note 13 and 24 (b)).

In 2001 the Group obtained short-term finance from a related party amounting to $1,001 of which $345 has been repaid before December 31, 2001.

In 2000, the Group granted short-term finance to a related party in the amount of $124. This amount was fully repaid in 2001.

(c) Transactions with funds under Group control

Total contributions to the pension fund where the Group holds a controlling interest amounted to $1,571 and $910 in 2001 and 2000, respectively (refer note 3(l) for the Pension scheme exercised by the Group).

Contributions to the charity fund were $5,999 and $1,494 in 2001 and 2000, respectively.

(d) Other transactions with related parties

In 2000 the Group sold a share of its holding in a long-term investment for $1,600 to a related party.

In 2001 a related party took part in the purchase of additional issues of shares exercised by subsidiaries of OJSC Dolomit and OJSC Lipetskcombank.

23. Commitments and contingencies

(a) Anti-dumping actions against the Group

The Group's export trading activities are subject to compliance reviews of importers' regulatory authorities. The Company's exports of rolled steel were considered within several anti-dumping investigation frameworks. The Company has taken steps to address anti-dumping investigations and participates in the settlement of such trade disputes as coordinated through the Russian authorities.

No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from legal action will not significantly affect its financial position or results of operations.

(c) Environmental matters

Management is of the opinion that the Group has met the Government's federal and regional requirements concerning environmental matters, and therefore believes that the Group does not have any current material environmental liabilities.

Currently, there is no material legislation in Russia regarding environmental damages or restrictions on the Group's activities as a result of environmental concerns.

The Company was subject to an environmental audit in 2001. As a result, the Company has committed itself to carry out certain environmental activities and to make capital investments of $117 million to decrease the environmental pollution within its Technical Re-equipment Program from 2002 to 2005 (refer note 23 (e)).

(d) Insurance matters

The Russian insurance industry is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has purchased coverage for buildings, property, plant and equipment, for environmental pollution as a result of accidents in workshops and medical insurance for employees. However, approximately 70% of the insurance coverage was obtained from Group insurance companies.

Until the Group obtains adequate insurance coverage, there is a risk that uninsured losses could have a certain adverse effect on the Group's operations.

(e) Capital, sale and purchase commitments

In the normal course of business the Group enters into long-term purchase contracts for raw materials and long-term sale contracts. These contracts allow for variations in the quantities and types of goods, as well as for periodic adjustments in prices dependent on prevalent market conditions.

To minimize financial losses resulting from disruption of supplies, the Group, first, creates stocks of inventories and, second, maintains relations only with reliable suppliers.

The Company has been carrying out a Technical Re-equipment Program since 2000. According to this Program, the projected investments from 2002 to 2005 in assets for the main production and environmental programs amount to approximately $850,000.

(f) Social commitments

The Company makes contributions to mandatory and voluntary social programs. The Company's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Company's employees. The Company has transferred certain social operations and assets to local authorities, however, management expects that the Company will continue to fund these social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(g) Taxation

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation.

(h) Guarantees granted

As of December 31, 2001, the Group had issued guarantees to third parties aggregating to $138 on borrowings of non-group companies. No amount has been accrued in the consolidated financial statements for the Group's obligation under this guarantee arrangement.

24. Subsequent events

(a) Purchase of main suppliers

In 2002, the Group registered the purchase of their main intermediate suppliers Larmet Ltd. and Vimet Ltd. by means of an additional share issue. The holding of 99.98% in Larmet Ltd. was purchased for $1,500 and the holding of 99.97% in Vimet Ltd. was purchased for $960.

In 2001, the total amount of purchases from the abovementioned companies was $191,746 and the total amount of sales to these companies was $23,216.

(b) Settling of promissory notes before maturity

In 2002, the promissory notes issued as a result of novation agreement (refer note 12) were repurchased from the third party by the Company in 2002 at a discounted amount of 5.2% to the face value.

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