Open Joint Stock Company
Magnitogorsk Iron & Steel Works
and subsidiaries

Interim Consolidated Financial Statements

for the six months ended 30 June 2002

(unaudited)

Contents

Consolidated balance sheet

As at 30 June 2002
In millions of US dollars

	Note	2002 (unaudited)	2001
Assets			
Property, plant and equipment		1,839	1,853
Intangible assets		21	22
Investments in associates	7	1	55
Other investments		1	2
Other non-current assets		16	12
Total non-current assets		1,878	1,944
Inventories		223	233
Trade and other receivables	8	353	267
Other investments		3	3
Cash and cash equivalents	9	148	77
Total current assets		727	580
Total assets		2,605	2,524
Equity			
Share capital	10	340	26
Treasury shares		(30)	(23)
Retained earnings		1,214	1,543
Total equity		1,524	1,546
Minority interest		18	7
Liabilities			
Loans and borrowings	11	246	81
Employee benefits		21	21
Deferred tax liabilities		229	239
Other non-current liabilities		20	26
Total non-current liabilities		516	367
Loans and borrowings	11	141	195
Trade and other payables		406	409
Total current liabilities		547	604
Total liabilities		1,063	971
Total equity, minority interest and liabilities		2,605	2,524

The interim consolidated financial statements were approved on 8 October 2002 and signed by:

G.S. Senitchev
Deputy of General Director of finance and economy

A.S. Batrutdinov
Acting Chief Accountant

The consolidated balance sheet is to be read in conjunction with the selected notes to and forming part of the interim consolidated financial statements set out on pages 6 to 12.

Consolidated income statement

For the six months ended 30 June 2002
In millions of US dollars, except earnings per share

	Note	2002 (unaudited)
Revenues	3	896
Cost of sales		(725)
Gross profit		171
Distribution expenses		(41)
Administrative expenses		(71)
Social costs		(21)
Taxes other than profits tax		(27)
Other operating income		5
Profit from operations		16
Net financing costs	4	(25)
Loss before tax and minority interest		(9)
Income tax	5	-
Loss before minority interest		(9)
Minority interest		(3)
Loss for the period		(12)
Basic and diluted loss per share (USD)	6	0.3

The consolidated income statement is to be read in conjunction with the selected notes to and forming part of the interim consolidated financial statements set out on pages 6 to 12.

Consolidated statement of cash flows

For the six months ended 30 June 2002
In millions of US dollars

	Note	2002 (unaudited)
Operating activities		
Loss before tax		(9)
Adjustments for:		
Depreciation and amortisation		108
Loss on disposal of fixed assets		6
Gain on investments		(1)
Interest expense		17
Operating profit before changes in working capital		121
Decrease in inventories		19
Increase in trade and other receivables		(82)
Decrease in trade and other payables		(28)
Cash flows from operations before taxes and interest paid		30
Interest paid		(16)
Profits tax paid		(11)
Cash flows from operating activities		3
Investing activities		
Proceeds from sale of property, plant and equipment		9
Proceeds from sale of investments		53
Acquisition of property, plant and equipment		(86)
Acquisition of intangible assets		(3)
Acquisition of subsidiaries less cash acquired		(3)
Cash flows to investing activities		(30)
Financing activities		
Proceeds from borrowings		309
Repayments of borrowings		(202)
Acquisition of treasury shares		(7)
Payments made under finance lease		(3)
Dividends paid		(1)
Cash flows from financing activities		96
Net increase in cash and cash equivalents		69
Cash and cash equivalents at 1 January 2002		77
Cash and cash equivalents at 30 June 2002	9	146

The consolidated statement of cash flows is to be read in conjunction with the selected notes to and forming part of the interim consolidated financial statements set out on pages 6 to 12.

Consolidated statement of changes in shareholders' equity

For the six months ended 30 June 2002

In millions of US dollars	Note	Share capital (unaudited)	Treasury shares (unaudited)	Retained earnings (unaudited)	Total (unaudited)
Balance at 1 January 2002		26	(23)	1,543	1,546
Increase of the share capital through the utilisation of unappropriated profits	9	314	-	(314)	-
Acquisition of treasury shares		-	(7)	-	(7)
Dividends		-	-	(3)	(3)
Net loss for the period		-	-	(12)	(12)
Balance at 30 June 2002		340	(30)	1,214	1,524

The consolidated statement of changes in equity is to be read in conjunction with the selected notes to and forming part of the interim consolidated financial statements set out on pages 6 to 12.

Selected notes to the interim consolidated financial statements (unaudited)

1. Basis of preparation

The accompanying interim consolidated financial statements of the Open Joint Stock Company Magnitogorsk Iron & Steel Works ("MMK" or "the Parent Company") and its subsidiaries ("the Group") for the six months ended 30 June 2002 have not been audited or reviewed by independent accountants. In the opinion of the Group's management, the interim information includes all adjustments and disclosures necessary to present fairly the financial position of the Group as at 30 June 2002, and the results of its operations, changes in equity and cash flows for the six months then ended. These adjustments were of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim consolidated financial statements. Therefore, these financial statements should be read in conjunction with the Group's Consolidated Financial Statements for the year ended 31 December 2001.

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the countries in which the individual entities are located (the Russian Federation, Switzerland and Luxembourg). The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of IAS 34 *"Interim Financial Reporting"* except for the omission of comparative information as referred to in paragraph (b) below.

All the accounting policies described in the Group's Consolidated Financial Statements for the year ended 31 December 2001 have been consistently applied in preparing the unaudited financial statements for the six months ended 30 June 2002.

(b) Comparative amounts

The Group did not prepare interim consolidated financial statements in accordance with IAS 34 for the six months ended 30 June 2001, therefore, the accompanying interim consolidated financial statements of the Group do not include comparative information in the consolidated statements of income, cash flows and changes in shareholders equity and the selected notes. The comparative information in the balance sheet is at 31 December 2001.

(c) Measurement and Presentation Currency

The national currency of the Russian Federation is the Russian rouble ("RUR"). The measurement and presentation currency used in the preparation of these financial statements is the United States dollar ("USD"). Management have determined the US dollar to be the measurement currency as they consider that the US dollar reflects the economic substance of the underlying events and circumstances of the Group. In making this assessment, management have considered the following matters:

- A significant portion of the Groups revenues are earned from exports which are invoiced and collected in US dollars;
- A significant portion of the Groups property, plant and equipment purchases are imported and are invoiced and settled in US dollars;
- A significant portion of the Groups expenses are denominated and settled in US dollars; and
- The Group retains a significant portion of its sales proceeds in US dollars.

All financial information presented in US dollars has been rounded to the nearest million.

Selected notes to the interim consolidated financial statements (unaudited)

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

2. Segment information

The Group predominantly produces iron and steel products. The revenues from the sale of these products constitute more than 95% of the total revenues. An analysis of sales by product and location of customers is included in note 3. Geographically, all significant assets, production and management/administrative facilities are located in Magnitogorsk in the Russian Federation.

3. Revenues

In millions of US dollars	**2002**
Rolled steel	530
Assorted rolled products	91
Tin plated steel	61
Slabs	51
Band	39
Galvanized steel	19
Tubes	8
Other	97
	896

Percentage of sales by customer location	**2002**
Russia and the CIS	49%
Asia	25%
Middle East	14%
Europe	10%
Other	2%
	100%

4. Net financing costs

In millions of US dollars	**2002**
Interest expense	17
Net foreign exchange loss	8
	25

Selected notes to the interim consolidated financial statements (unaudited)

5. Income tax

In millions of US dollars	2002
Current tax expense	
Current year expense	11
Overprovided in prior years	(1)
	10
Deferred tax benefit	
Origination and reversal of temporary differences	(10)
	-

As a result of amendments to the Tax Code of the Russian Federation, the statutory income tax rate changed from 35% to 24% with effect from 1 January 2002. The amendments also resulted in the elimination of certain tax benefits, including investment tax credits.

The Parent Company's applicable tax rate is the corporate income tax rate of 24%. The same rate was applied for measuring deferred taxes.

Reconciliation of the effective tax rate

In millions of US dollars		2002
Loss before tax		(9)
Income tax using corporate tax rate	24%	(2)
Non-deductible expenses	(34%)	3
Overprovided in prior periods	10%	(1)
	0%	-

6. Earnings per share

The calculation of basic and diluted loss per share as at 30 June 2002 is based on the net loss attributable to ordinary shareholders of USD 12 million and a weighted average number of ordinary shares outstanding during the six months then ended of 4,075 thousand, calculated as follows:

Weighted average number of ordinary shares

In thousands of shares	2002
Issued ordinary shares at 1 January 2002	6,644
Effect of own shares held	(2,569)
Weighted average number of ordinary shares at 30 June 2002	4,075

Selected notes to the interim consolidated financial statements (unaudited)

7. Business acquisitions/disposals

OAO Magnitogorsky Metizno-Metallurgiechesky Zavod
In February, April and May 2002, the Group acquired 5.3%, 15.4% and 15.3% of the shares in MMMZ (in total 38.1% of the voting interest) for USD 700 thousand, USD 1.7 million and USD 1.2 million, respectively, which resulted in the Group having a controlling financial interest in the company. The acquisition of this subsidiary company was accounted for using the purchase method of consolidation.

OAO Ugolnaya Kompania Kuzbassugol
In June 2002, the Group sold their 26% investment in Kuzbassugol for USD 52 million.

8. Trade and other receivables

In millions of US dollars	**2002**	**2001**
Trade accounts receivable	145	127
VAT receivable	129	84
Prepayments	58	31
Receivables from employees	1	1
Other receivables	34	41
	367	284
Provision for doubtful debts (trade)	(14)	(17)
	353	267

9. Cash and cash equivalents

Cash and cash equivalents comprise local and foreign currency bank balances, call deposits and bank promissory notes.

In millions of US dollars	**2002**	**2001**
Foreign currency bank accounts	34	20
RUR bank accounts	4	15
USD bank deposits	29	14
USD denominated bank promissory notes	72	23
Other RUR denominated cash equivalents	9	5
Cash and cash equivalents	148	77
Bank overdrafts	(2)	-
Cash and cash equivalents in the statement of cash flows	146	77

10. Share capital

At the Parent Company's annual shareholders meeting on 17 May 2002, shareholders voted in favour of increasing the share capital to RUR 10.7 billion (USD 340 million) through the utilisation of unappropriated profits. The registration of this transaction with the Federal Commission for the Securities Market was not finalised as at the balance sheet date.

Selected notes to the interim consolidated financial statements (unaudited)

11. Loans and borrowings

In millions of US dollars	Effective interest rate	2002	Effective interest rate	2001
Non-current liabilities				
Secured loans: - RUR, fixed	19%	96	20%	51
- USD, variable	7%	37	7%	15
- EUR, variable	7%	6	6%	2
Unsecured loans - USD, fixed	-	-	11%	1
Unsecured eurobonds - EUR, fixed	10%	97	-	-
Finance lease liabilities: - USD, fixed	11%	8	11%	9
- RUR, fixed	24%	2	24%	3
		246		81
Current liabilities				
Bank overdrafts: - RUR, fixed	18%	2	-	-
Secured loans: - RUR, fixed	18%	34	21%	68
- USD, variable	5%	24	6%	28
Unsecured loans: - RUR, fixed	17%	2	18%	2
- USD, variable	-	-	7%	7
- USD, fixed	6%	54	5%	48
- EUR, fixed	3%	2	-	-
Unsecured Russian bond issues - RUR, fixed	18%	19	18%	34
Current portion of secured loans: - USD, variable	-	-	7%	3
Current portion of finance lease obligations: - USD, fixed	11%	3	11%	3
- RUR, fixed	24%	1	24%	2
		141		195

Eurobonds issue

On 18 February 2002, the Group issued 100,000 notes with a face value of Euro ("EUR") 1,000 each. The notes constitute unsecured and unsubordinated obligations of MMK Finance S.A. and rank pari passu with all other unsecured and unsubordinated present and future obligations of MMK Finance S.A. The notes were issued with a yield of 10.1%, maturing in three years. The Parent Company provided an unconditional, unsecured, and unsubordinated guarantee for the notes issue.

A covenant to the notes issue which is specified in the Guarantee agreement restricts the Parent Company, as Guarantor, from issuing a security interest where the aggregate consolidated secured debt will exceed 10% of the Guarantor's consolidated total assets, unless the same or similar security interest is provided to the noteholders. Exemptions exist under the covenant depending on the purpose for which the security interest is provided.

Selected notes to the interim consolidated financial statements (unaudited)

12. Pledges provided by the Group

The Group has pledged fixed assets and inventory of USD 616 million and USD 89 million, respectively. The Group has also pledged export contracts totalling USD 102 million, and 75% of the ordinary shares of a subsidiary which had net assets of USD 7 million at the balance sheet date.

The Group is subject to the following pledges as at 30 June 2002.

In millions of US dollars	2002	2001
Short-term		
Pledges provided for the debt of related parties	-	61
Pledges provided for the debt of the Group	166	599
Pledges provided for the debt of third parties	-	9
Long term		
Pledges provided for the debt of the Group	648	438
	814	1,107

13. Related parties

The Group continued with its related party relationships as disclosed in the Group's Consolidated Financial Statements for the year ended 31 December 2001.

14. Commitments

(i) *Capital commitments*

The Group is committed to capital expenditure of approximately USD 32 million (31 December 2001: USD 77 million).

(ii) *Social commitments*

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

15. Contingencies

(i) *Insurance*

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for it's plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Groups operations and financial position.

Selected notes to the interim consolidated financial statements (unaudited)

(ii) ***Litigation***

Unresolved claims and litigation against the Group as at 30 June 2002 amounted to USD 2 million (31 December 2001: USD 4 million). These include a large number of small claims and litigation relating to sales made to domestic customers and purchases of goods and services from suppliers. Based on experience in resolving such matters, management believes that these will be resolved without significant loss to the Group and, accordingly, no provision has been made for these unresolved claims and litigations.

(iii) ***Taxation contingencies***

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

These facts may create tax risks in Russia substantially more significant than in other countries. The Groups management believes that it has adequately provided for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

(iv) ***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 the 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 costs 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 believe 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.

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