

SEVERSTAL

Parent company financial statements
for the year ended December 31, 2002

Severstal

Parent company financial statements for the year ended December 31, 2002

Contents

	<u>Page</u>
Independent auditor's report	1
Parent company balance sheet	2
Parent company statement of operations	3
Parent company statement of cash flows	4
Parent company statement of changes in shareholders' equity	5
Notes to the parent company financial statements	6 – 27



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Independent Auditor's Report

Board of Directors
OAO Severstal

We have audited the accompanying parent company balance sheet of OAO Severstal (the "Company") as of 31 December 2002 and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended. These parent company financial statements, as set out on pages 2 to 27, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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 audit provides a reasonable basis for our opinion.

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2002 and the results of its operations, changes in shareholders' equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
15 August 2003



Severstal

Parent company balance sheet

December 31, 2002

(Amounts expressed in thousands of US dollars)

	Note	December 31		
		2002	2001	2000
Assets				
Current assets:				
Cash and cash equivalents	11	131,887	57,106	309,275
Trade accounts receivable	12	39,778	30,690	28,980
Inventories	13	146,328	150,521	178,127
Amounts receivable from related parties	14	164,001	158,864	117,130
VAT recoverable		39,165	30,282	25,940
Income tax recoverable		-	2,317	-
Other current assets	15	81,352	85,758	49,467
Financial assets	16	297,573	155,461	133,223
Total current assets		900,084	670,999	842,142
Non-current assets:				
Financial assets	16	194,802	190,940	81,932
Property, plant & equipment	17	1,844,362	1,924,576	1,045,541
Total non-current assets		2,039,164	2,115,516	1,127,473
Total assets		2,939,248	2,786,515	1,969,615
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		86,584	79,098	44,114
Amounts payable to related parties	18	36,899	17,083	17,353
Income tax payable		7,490	-	6,734
Other taxes and social security payable		16,890	24,274	15,796
Deferred income		3,656	5,906	7,373
Debt finance	20	66,279	70,502	27,689
Dividends payable		564	19,352	-
Other current liabilities	19	68,506	46,409	48,867
Total current liabilities		286,868	262,624	167,926
Non-current liabilities:				
Debt finance	20	82,430	62,256	34,335
Deferred tax liability	10	283,572	322,421	169,737
Other non-current liabilities	22	19,228	28,935	25,938
Total non-current liabilities		385,230	413,612	230,010
Shareholders' equity:				
Share capital	23	3,311,129	3,311,129	3,311,129
Revaluation reserve		827,453	949,245	-
Accumulated deficit		(1,871,432)	(2,150,095)	(1,739,450)
Total shareholders' equity		2,267,150	2,110,279	1,571,679
Total liabilities and shareholders' equity		2,939,248	2,786,515	1,969,615

These financial statements were approved by the Board of Directors on August 15, 2003.

The accompanying accounting policies and notes on pages 6 to 27
form an integral part of these financial statements.

Severstal

Parent company statement of operations

Year ended December 31, 2002

(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	<u>Note</u>	Year ended December 31		
		2002	2001	2000
Sales				
Sales - external		844,341	1,108,103	1,360,084
Sales - to related parties	14	1,120,875	681,034	713,086
	4	1,965,216	1,789,137	2,073,170
Cost of sales		(1,437,773)	(1,463,476)	(1,167,879)
Gross profit		527,443	325,661	905,291
Indirect taxes & contributions		(33,375)	(32,924)	(38,825)
Selling, general & administration expenses		(73,726)	(97,733)	(47,729)
Distribution expenses		(95,771)	(83,983)	(105,789)
Other operating income	5	3,270	3,248	2,042
Other operating expenses	6	(37,661)	(22,188)	(20,860)
Profit from operations		290,180	92,081	694,130
Non-operating expenses	8	(19,648)	(200,499)	(35,022)
Impairment loss		-	(384,481)	-
Profit/(loss) before financing and taxation		270,532	(492,899)	659,108
Net financing expense	9	(24,657)	(67,209)	(10,408)
Profit/(loss) before income tax		245,875	(560,108)	648,700
Income tax benefit/(expense)	10	(67,911)	93,232	(196,020)
Profit/(loss) for the year		177,964	(466,876)	452,680
Weighted average number of shares outstanding during the year		22,074,192	22,074,192	22,074,192
Basic and diluted profit/(loss) per share, US\$		8.06	(21.15)	20.51

The accompanying accounting policies and notes on pages 6 to 27
form an integral part of these financial statements.

Severstal

Parent company statement of cash flows
Year ended December 31, 2002
(Amounts expressed in thousands of US dollars)

	Year ended December 31		
	2002	2001	2000
Operating activities:			
Profit/(loss) before financing and taxation	270,532	(492,899)	659,108
Adjustments to reconcile profit to cash provided by operating activities:			
Depreciation (total assets)	196,725	191,611	125,960
Foreign exchange loss	3,046	1,430	570
Impairment loss	-	384,481	-
Restructuring loss	-	136,007	-
Write down of construction in progress	5,937	1,520	33,835
Loss on disposal of property, plant & equipment	32,521	18,331	3,343
Provision for doubtful accounts receivable	162	(2,402)	(6,357)
Changes in operating assets and liabilities:			
Bank deposits	2,288	15,943	(1,579)
Trade accounts receivable	(9,250)	692	7,335
Amounts receivable from related parties	(5,137)	(41,734)	(87,278)
Inventories	10,737	27,676	(54,945)
VAT recoverable	(11,898)	(5,978)	(6,660)
Other taxes and social security payable	(4,255)	(10,625)	5,533
Other current assets	(1,625)	(20,263)	1,946
Trade accounts payable	7,486	34,984	(16,311)
Amounts payable to related parties	19,816	(270)	(9,025)
Deferred income	(1,982)	(1,067)	(25)
Other current liabilities	22,618	(2,042)	(18,984)
Other non-current liabilities	(8,241)	4,490	533
Cash generated from operations	529,480	239,885	636,999
Interest received	5,035	11,234	18,063
Interest paid	(18,034)	(6,709)	(6,956)
Income tax paid	(96,953)	(108,628)	(232,592)
Net cash provided from operating activities	419,528	135,782	415,514
Investing activities:			
Additions to property, plant & equipment	(184,376)	(80,494)	(96,952)
Proceeds from disposal of property, plant & equipment	2,955	1,278	943
Additions to financial assets	(169,584)	(354,912)	(168,316)
Proceeds from disposal of financial assets	6,311	65	-
Cash used for investing activities	(344,694)	(434,063)	(264,325)
Financing activities:			
Repayment of debt finance	(328,205)	(98,552)	(6,918)
Proceeds from debt finance	346,505	169,901	34,025
Dividends paid	(18,759)	(24,976)	-
Cash provided from/(used by) financing activities	(459)	46,373	27,107
Effect of exchange rates on cash	406	(261)	(528)
Net increase/(decrease) in cash and cash equivalents	74,781	(252,169)	177,768
Cash and cash equivalents at beginning of year	57,106	309,275	131,507
Cash and cash equivalents at end of year	131,887	57,106	309,275

The accompanying accounting policies and notes on pages 6 to 27 form an integral part of these financial statements.

Severstal

Parent company statement of changes in shareholders' equity

Year ended December 31, 2002

(Amounts expressed in thousands of US dollars)

	Share capital	Revaluation reserve	Accumulated deficit	Total
Balances at December 31, 1999	3,311,129	-	(2,192,130)	1,118,999
Profit for the year	-	-	452,680	452,680
Balances at December 31, 2000	3,311,129	-	(1,739,450)	1,571,679
Dividends declared in respect of 2000	-	-	(45,561)	(45,561)
Revaluation of property, plant & equipment:				
- revaluation	-	1,410,030	-	1,410,030
- deferred tax on the revaluation	-	(437,109)	-	(437,109)
Realization of revaluation reserve:				
- disposals	-	(13,614)	13,614	-
- depreciation	-	(133,910)	133,910	-
- deferred tax on realization	-	45,732	(45,732)	-
Impairment of property, plant & equipment:				
- impairment	-	(13,500)	-	(13,500)
- deferred tax on impairment	-	4,185	-	4,185
Effect of change in deferred tax rate	-	87,431	-	87,431
Loss for the year	-	-	(466,876)	(466,876)
Balances at December 31, 2001	3,311,129	949,245	(2,150,095)	2,110,279
Dividends declared in respect of 2001	-	-	(21,093)	(21,093)
Realization of revaluation reserve:				
- disposals - external	-	(22,892)	22,892	-
- disposals - to group companies	-	(10,299)	10,299	-
- depreciation	-	(127,061)	127,061	-
- deferred tax on realization	-	38,460	(38,460)	-
Profit for the year	-	-	177,964	177,964
Balances at December 31, 2002	3,311,129	827,453	(1,871,432)	2,267,150

The accompanying accounting policies and notes on pages 6 to 27
form an integral part of these financial statements.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

1. Operations

Severstal ('the Company') began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as part of the Russian privatization program, the Company was registered as a Joint Stock Company and privatized. The Company's registered office is located at Ul. Mira 30, Cherepovets, Russia. The Company's shares are quoted on the Russian Trading System, and the significant shareholders at the year end were as follows:

ZAO Severstal-Garant	43.72%
ZAO Severstal-Group	21.99%
AA Mordashov	16.63%

The Company's principal activity is the production and sale of steel products. The Company also has various social responsibilities such as the operation and maintenance of sports complexes, holiday and recreational facilities and public housing.

The Company is wholly based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Company and the realization and settlement of its assets and liabilities.

The Company's exports of rolled steel have been considered as part of several anti-dumping investigations. The Company has taken steps to address the concerns of such investigations and participates actively in their resolution.

2. Presentation of the financial statements

These financial statements were prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and are prepared under the historic cost convention as modified by the revaluation of certain property, plant and equipment (see below). In addition to these financial statements, the Company also prepares pro-forma consolidated financial statements in accordance with IFRS. The Company's statutory financial reports are prepared in accordance with accounting principles derived from Russian law, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these financial statements are set out in note 3.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making such estimates, the actual results reported in future periods may be based upon amounts that differ from those estimates.

The national currency of the Russian Federation is the rouble. The measurement and presentation currency used in the preparation of these financial statements is the United States dollar ('US dollar'). Management has determined the US dollar to be the measurement

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

currency because it considers that the US dollar reflects the economic substance of the underlying events and circumstances of the Company.

In making this assessment, management has considered the following matters:

- a significant portion of the Company's revenues are earned from exports which are invoiced and collected in US dollars;
- the Company is able to retain a significant amount of sales receipts in US dollars;
- a significant portion of the Company's property, plant and equipment purchases are imported and invoiced and settled in US dollars;
- a significant portion of the Company's activities are financed in US dollars.

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

3. Summary of the principal accounting policies

a. Cash and cash equivalents

Cash equivalents are all highly liquid temporary cash investments with original maturity dates of three months or less.

b. Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Provisions are recorded against slow moving and obsolete inventories.

c. Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

d. Foreign currency transactions

Transactions in foreign currencies are translated to US dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to US dollars at the foreign exchange rate ruling at the date of the transaction. An analysis of the foreign exchange differences is given in note 26 of these financial statements.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

e. Financial assets

Where the Company has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses.

Originated loans are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument

Other financial assets held by the Company are classified as available for sale and are stated at cost less impairment losses because their fair market values are not determinable.

Financial assets are recognized/derecognized by the Company on the date it commits to purchase/sell the financial assets. Financial assets held to maturity are recognized/derecognized on the day they are transferred to/by the Company.

f. Property, plant & equipment

Property, plant & equipment is stated at fair market value as at January 1, 2001 plus subsequent additions at historical cost, less accumulated depreciation and provisions for impairment losses. In the case of assets constructed by the Company, related works and direct project overheads are included in cost. Repair and maintenance expenses are charged to the statement of operations as incurred. Gains or losses on disposals of property, plant & equipment are recognized in the statement of operations.

Depreciation is provided so as to write off property, plant & equipment over its expected useful life. Depreciation is calculated using the straight-line basis. The estimated useful lives of assets are reviewed regularly and revised when necessary. The principal periods over which assets are depreciated using the straight-line basis are as follows:

Buildings & constructions	20 – 50 years
Plant & machinery	10 – 20 years
Other productive assets	5 – 20 years
Community & infrastructure assets	5 – 50 years

As assets are depreciated or disposed of, any related revaluation surplus is considered to be realized and is transferred from the revaluation reserve to the retained earnings/accumulated deficit within the statement of changes in shareholders' equity.

As at January 1, 2001 the company commissioned American Appraisal Inc to independently assess the value of its productive property, plant & equipment for the purpose of financial reporting. The valuation procedures determined the fair market value of the Company's property, plant & equipment as at January 1, 2001. Fixed assets were valued assuming continued use of the facilities. Management used similar procedures to value the Company's social assets as at January 1, 2001.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

g. Asset impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Impairment losses are recognized in the statement of operations unless they reverse a revaluation recognized directly in equity in which case the impairment losses are recognized in equity.

h. Leased assets

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

i. Indirect taxes & contributions

Indirect taxes & contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits and value added taxes calculated on revenues and purchases.

j. Income tax

Income tax on the profit for the year comprises current and deferred tax. Current tax expense is calculated on the pretax income determined in accordance with Russian tax law, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized only to

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized in respect of the following:

- investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction affects neither accounting profit nor taxable profit/losses.

k. Debt finance

Debt financing is stated at amortized cost and include accrued interest at the balance sheet date. The difference between cost and redemption value is recognized in the statement of operations for the period of the borrowings on an effective interest basis. Borrowing costs on loans specifically for the purchase or construction of property, plant & equipment are capitalized as part of the cost of the asset they are financing. All other borrowing costs are recognized as an expense in the period in which they are incurred.

l. Revenue recognition

Revenue from the sale of goods is recognized in the statement of operations when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due or if there is a possibility that the goods may be returned. Sales include all amounts billed to customers and are stated net of taxes.

m. Retirement benefits

The Company voluntarily pays a charitable retirement benefit to former employees of up to US\$ 15.73 (Rbs 500.00) as at December 31, 2002 (2001: US\$ 14.93; 2000: US\$ 10.65) per month, dependent on the employee's length of service.

The Company's net obligation in respect of this defined retirement benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the balance sheet date on highly rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by management using the projected unit credit method. Any actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized in the following years' statement of operations.

n. Net financing expense

Net financing expense represents interest received/paid, foreign exchange gains/losses on financial assets and originated loans and receivables as a result of measuring rouble balances in US dollars; and the effect of discounting non-interest bearing financial assets.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

o. Profit/(loss) per share

Profit/(loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of shares outstanding during the year.

p. Related parties

The following are defined by the Company as its related parties:

- controlled entities, whether controlled directly or indirectly via intermediaries;
- investments in associated companies;
- shareholders and their immediate families;
- directors and officers of the Company and their immediate families; and,
- entities over which officers or directors and their immediate families have control or significant influence.

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

q. Provisions

Provisions are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

r. Deferred income

In previous years the Company was permitted to create a fund for research projects by transferring part of its indirect tax liabilities into separate deferred income accounts in the balance sheet. Project expenses are recorded in the statement of operations as 'other operating expenses' and the amortization of the corresponding deferred income accounts is recorded in the statement of operations as 'other operating income'. If any part of the deferred income is not utilized it is transferred back to statement of operations and subject to income tax.

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

4. Sales

Sales by product were as follows:

	2002	2001	2000
Export sales:			
Hot rolled sheet	340,132	277,921	490,377
Cold rolled sheet	191,389	176,436	224,630
Galvanized and cold formed products	154,052	73,011	135,472
Semi-finished products	89,292	69,691	76,721
Hot rolled sections	40,937	49,045	56,082
Chemical by-products	7,489	7,231	5,251
Other production	3,787	1,138	867
Shipping and handling costs billed to customers	3,668	21,647	40,038
	<u>830,746</u>	<u>676,120</u>	<u>1,029,438</u>
Domestic sales:			
Hot rolled sheet	365,146	396,890	377,136
Hot rolled sections	229,327	187,623	161,832
Galvanized and cold formed products	203,784	158,897	144,436
Cold rolled sheet	178,093	196,770	218,175
Chemical by-products	25,031	34,870	25,642
Semi finished products	3,048	2,976	9,667
Other production	76,023	94,231	77,243
Non-core activities	10,142	8,874	6,874
Shipping and handling costs billed to customers	43,876	31,886	22,727
	<u>1,134,470</u>	<u>1,113,017</u>	<u>1,043,732</u>
Total sales	<u>1,965,216</u>	<u>1,789,137</u>	<u>2,073,170</u>

Export sales by delivery destination were as follows:

	2002	2001	2000
Europe	235,001	227,151	250,201
South-East Asia	164,025	69,542	195,838
Central Asia	123,116	30,052	23,726
The Middle East	89,609	69,580	150,510
Africa	87,363	91,507	121,968
United States of America	52,680	87,022	117,973
Central America	48,738	56,081	91,796
South America	30,214	45,185	69,084
North America (excluding the USA)	-	-	8,342
	<u>830,746</u>	<u>676,120</u>	<u>1,029,438</u>

5. Other operating income

	2002	2001	2000
Amortization of deferred income	3,002	2,848	1,197
Foreign exchange gain on deferred income	268	400	845
	<u>3,270</u>	<u>3,248</u>	<u>2,042</u>

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

6. Other operating expenses

	2002	2001	2000
Loss on disposal of property, plant & equipment	(32,521)	(15,872)	(3,343)
Tax penalties	2,753	(2,753)	-
Write down of construction-in-progress	(5,937)	(1,520)	(15,695)
Expenses on social and research projects	(2,145)	(1,782)	(1,172)
Foreign exchange gain/(loss) on rouble cash balances	406	(261)	(528)
Political donations	(217)	-	(122)
	<u>(37,661)</u>	<u>(22,188)</u>	<u>(20,860)</u>

7. Staff costs

Employment costs during the year were as follows:

	2002	2001	2000
Wages and salaries	(139,042)	(132,073)	(99,624)
Social benefits	(2,862)	(4,266)	(5,708)
Social security costs	(43,725)	(44,963)	(44,726)
Retirement benefit costs - defined benefit plans (see note 22)	(2,869)	(2,419)	(2,107)
Gross staff costs	<u>(188,498)</u>	<u>(183,721)</u>	<u>(152,165)</u>
Actuarial losses/(gains) recognized (see note 22)	3,222	(10,963)	(482)
Foreign exchange gains on unpaid liabilities:			
Wages, salaries and social benefits	356	441	181
Social security costs	161	195	186
Retirement benefit provision (see note 22)	1,466	1,493	1,091
Net staff costs	<u>(183,293)</u>	<u>(192,555)</u>	<u>(151,189)</u>

Included within the total social security costs paid to the government are payments to the state pension fund of US\$ 33.7 million (2001: US\$ 37.0 million; 2000: US\$ 27.9 million).

The directors receive remuneration from the Company in respect of their services as officers and employees of the Company, which is included in 'wages and salaries' shown above. Additionally, the directors receive emoluments from other related companies for their services as directors and officers to those companies.

The number of full time employees at the year end, all employed in Russia, was 36,950 (2001: 43,524; 2000: 45,350). The number of retired employees receiving benefits at the year end was 20,394 (2001: 20,563; 2000: 20,097).

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

8. Non-operating expenses

	2002	2001	2000
Depreciation of community & infrastructure assets	(1,105)	(961)	(2,989)
Social expenditure	(11,180)	(11,799)	(13,077)
Charitable donations	(7,363)	(49,273)	(816)
Restructuring loss	-	(136,007)	-
Loss on transfer of kindergartens to city administration	-	(2,459)	-
Impairment of community & infrastructure assets	-	-	(18,140)
	<u>(19,648)</u>	<u>(200,499)</u>	<u>(35,022)</u>

9. Net financing expense

	2002	2001	2000
Interest income:			
OAO Metallurgical Commercial Bank	40	1,283	2,558
OAO Promstroibank (StP)	1,121	720	-
Other banks	2,082	8,855	15,505
Originated loans & receivables	1,792	376	-
Interest expenses:			
OAO Metallurgical Commercial Bank	(70)	(38)	(472)
OAO Promstroibank (StP)	(847)	(27)	-
OAO Insurance Company Sheksna	(430)	-	-
Other banks	(16,579)	(6,937)	(5,241)
OOO Severstal-Holding - lease commissions	(32)	(32)	(36)
Profit/(loss) from disposal of available for sale securities	216	(4)	-
Reversal of/impairment of available-for-sale securities	2,613	(31,396)	(16,098)
Impairment of originated loans & receivables	(456)	(20,074)	(3,970)
Foreign exchange loss on:			
Available for sale securities	(4,389)	(2,001)	(834)
Originated loans & receivables	(11,279)	(16,844)	(1,510)
Bank deposits	(712)	(2,030)	(1,579)
Foreign exchange gain on rouble loans	2,273	940	1,269
	<u>(24,657)</u>	<u>(67,209)</u>	<u>(10,408)</u>

10. Taxation

At the balance sheet date the Company had no tax loss carry forwards. The following is an analysis of the income tax benefit/(expense):

	2002	2001	2000
Current tax charge	(114,441)	(99,493)	(229,799)
Corrections to prior year's current tax charge	7,763	(72)	147
Deferred tax benefit	38,849	186,201	38,793
Effect of change in tax rate on deferred tax	-	6,608	(5,476)
Foreign exchange gain/(loss) on unpaid liabilities	(82)	(12)	315
Income tax benefit/(expense)	<u>(67,911)</u>	<u>93,232</u>	<u>(196,020)</u>

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the statutory tax rate of 24% (2001: 24%, 2000: 31%) to reported profit/(loss) before income tax.

	2002	2001	2000
Profit/(loss) before income tax	<u>245,875</u>	<u>(560,108)</u>	<u>648,700</u>
Tax benefit/(charge) at the statutory rate	(59,010)	173,633	(194,610)
Non-deductible expenses	(23,432)	(105,317)	(17,710)
Tax incentives	-	23,447	30,011
Effect of change in tax rate on deferred tax	-	6,608	(5,476)
Effect of exchange rate differences on temporary differences	6,850	(5,055)	(8,697)
Corrections to prior year's current tax charge	7,763	(72)	147
Foreign exchange gain/(loss) on unpaid liabilities	(82)	(12)	315
Income tax benefit/(expense)	<u>(67,911)</u>	<u>93,232</u>	<u>(196,020)</u>

The composition of the net deferred tax liability, calculated at 24% (2001: 24%; 2000: 31%), based on the temporary differences arising between the Company's fiscal and reporting balance sheets, is given below. The major sources of temporary differences in determining the reported balance sheets are: translation of non-monetary assets using historical exchange rates; asset impairment and revaluations, higher depreciation charges; providing against obsolete inventories; and, writing off various expenditures as incurred instead of amortizing them over future periods. Movements in deferred tax are as follows:

	Property, plant & equipment	Provisions	Other	Total
Balances at December 31, 1999	(240,564)	14,665	22,845	(203,054)
Recognized in:				
Statement of operations	48,807	(4,930)	(10,560)	33,317
Balances at December 31, 2000	<u>(191,757)</u>	<u>9,735</u>	<u>12,285</u>	<u>(169,737)</u>
Recognized in:				
Statement of operations	187,441	(2,783)	8,151	192,809
Statement of changes in shareholders' equity	(345,493)	-	-	(345,493)
Balances at December 31, 2001	<u>(349,809)</u>	<u>6,952</u>	<u>20,436</u>	<u>(322,421)</u>
Recognized in:				
Statement of operations	39,011	(3,369)	3,207	38,849
Balances at December 31, 2002	<u>(310,798)</u>	<u>3,583</u>	<u>23,643</u>	<u>(283,572)</u>

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

11. Cash and cash equivalents

	2002	2001	2000
Petty cash	34	48	19
Cash at bank:			
OAO Metallurgical Commercial Bank	13,645	34,523	31,164
OAO Promstroibank (StP)	2,244	3,526	-
International banks	978	594	3,329
Other Russian banks	2,986	1,251	3,601
Escrow accounts	4,469	11,230	10,190
Short term deposits:			
OAO Metallurgical Commercial Bank	9,011	-	76,766
OAO Promstroibank (StP)	15,061	-	-
International banks	17,653	3,416	66,000
Other Russian banks	58,842	484	99,110
Loans:			
OOO Okatysh-Service	-	-	9,294
Promissory notes:			
OAO MVC Severstal	6,964	514	8,360
OAO Metallurgical Commercial Bank	-	-	848
OAO Promstroibank (StP)	-	572	-
Other	-	948	594
	<u>131,887</u>	<u>57,106</u>	<u>309,275</u>

12. Trade accounts receivable

	2002	2001	2000
Export receivables:			
Customers	1,564	4,546	19,454
Allowance for doubtful accounts	-	-	(818)
Domestic receivables:			
Customers	42,333	30,101	15,885
Allowance for doubtful accounts	(4,119)	(3,957)	(5,541)
	<u>39,778</u>	<u>30,690</u>	<u>28,980</u>
Movement in allowance for doubtful accounts:			
Opening balance	(3,957)	(6,359)	(12,716)
Amounts written off during the year	-	1,985	969
Change in provision	(162)	417	5,388
Closing balance	<u>(4,119)</u>	<u>(3,957)</u>	<u>(6,359)</u>

13. Inventories

	2002	2001	2000
Raw materials	95,821	89,831	100,599
Work in progress	41,530	52,544	36,070
Finished goods	8,977	8,146	41,458
	<u>146,328</u>	<u>150,521</u>	<u>178,127</u>

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

14. Amounts receivable from related parties

	2002	2001	2000
Controlled related parties:			
Trade accounts receivable	124,812	140,711	71,409
Other receivables	2,820	7,267	5,452
Other related parties:			
Trade accounts receivable	27,674	6,135	38,721
Other receivables	8,695	4,751	1,548
	<u>164,001</u>	<u>158,864</u>	<u>117,130</u>

Sales to related parties were as follows:

	2002	2001	2000
Controlled related parties	895,147	646,241	587,386
Other related parties	225,728	34,793	125,700
	<u>1,120,875</u>	<u>681,034</u>	<u>713,086</u>

All sales to related parties were conducted on an arm's length basis.

15. Other current assets

	2002	2001	2000
Advances paid to suppliers	49,732	43,169	39,082
Other taxes and social security prepaid	21,928	24,654	5,446
Prepayments	4,854	14,886	244
Other	4,838	3,049	4,695
	<u>81,352</u>	<u>85,758</u>	<u>49,467</u>

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

16. Financial assets

The company's principal financial assets are as follows:

Current financial assets :

Name	2002 Net	2001 Net	2000 Net
Available for sale securities:			
<i>Commercial paper:</i>			
Third parties	-	2,511	-
<i>Shares:</i>			
Other related parties	-	21,093	-
<i>Promissory notes:</i>			
Other related parties	55,321	-	-
Third parties	18,964	14,329	-
Held to maturity securities:			
<i>Bank deposits:</i>			
Controlled related parties	-	10,000	14,446
Third parties	7,000	-	13,527
<i>Promissory notes:</i>			
Controlled related parties	-	-	7,580
Other related parties	954	5,027	-
Third parties	-	-	2,832
Originated loans:			
Controlled related parties	15,813	9,092	5,510
Other related parties	127,883	54,090	78,108
Third parties	71,638	39,319	11,220
	<u>297,573</u>	<u>155,461</u>	<u>133,223</u>

Non-current financial assets :

Name	Principal activity	Share type	Percentage holding	2002 Net	2001 Net	2000 Net
Available-for-sale-securities						
<i>Shares in subsidiaries:</i>						
OOO SSM-Tyazhmash	Repairs	Ordinary	100.00%	34,926	-	-
OAO Cherepovets Steel Rolling Mill	Steel machining	Ordinary	72.38%	10,393	1,500	-
OAO Metallurgical Commercial Bank	Banking	Ordinary	52.32%	9,844	9,522	9,522
OAO Insurance Company Sheksna	Insurance	Ordinary	90.09%	3,942	3,942	2,276
ZAO Severgal	Galvanised steels	Ordinary	74.99%	5,867	-	-
OOO Severstal-Holding	Holding company	Ordinary	89.94%	3,300	3,300	28,939
ZAO Izhorsky Tube Factory	Pipe manufacturing	Ordinary	100.00%	2,500	3,817	3,754
OAO Metallurgremont	Repairs	Ordinary	73.44%	2,258	-	-
Severstal Trade GmbH	Holding company	Ordinary	100.00%	1,943	1,943	1,943
OOO Aviacompany Severstal	Airline	Ordinary	100.00%	1,763	-	-
OAO Domnaremont	Repairs	Ordinary	56.44%	1,745	-	-
OAO NIIER	Research & development	Ordinary	98.03%	1,585	793	-
OAO Pansionat Sheksna	Recreation	Ordinary	100.00%	-	-	3,512
<i>Shares in associates and other companies:</i>						
OAO Kuzbassugol	Coal mining	Ordinary	11.50%	24,650	-	-
OAO Kolomensky Zavod	Locomotive manufacturing	Ordinary	16.33%	15,047	15,047	-
OAO Promstroibank (StP)	Banking	Ordinary	9.81%	11,262	11,262	-
OOO Severstal-etal	Enamelled kitchenware	Ordinary	50.00%	5,346	-	-
ZAO Promtorgbank	Banking	Ordinary	10.19%	3,985	3,985	-
OOO Severstal-mebel	Steel based furniture	Ordinary	50.00%	2,419	-	-
OAO Vorkutaugol	Coal mining	Ordinary	3.90%	1,287	1,183	-
ZAO Zemledelets-Severstal	Agriculture	Ordinary	29.16%	-	-	889
Others individually less than US\$ 50,000 each				969	7	207
<i>Promissory notes:</i>						
Other related parties				221	-	-
Third parties				5,600	9,190	-
Held to maturity securities:						
<i>Promissory notes:</i>						
Other related parties				-	27,070	-
Third parties				6,105	-	-
Originated loans:						
Controlled related parties				2,347	21,070	15,107
Other related parties				28,885	51,460	-
Third parties				6,613	25,849	15,783
				<u>194,802</u>	<u>190,940</u>	<u>81,932</u>

Shareholdings are stated at cost less impairment losses. Their fair values are not readily determinable because they are not traded on an exchange.

Except for Severstal Trade GmbH, all investments are in companies incorporated and resident in the Russian Federation. Severstal Trade GmbH is incorporated and resident in Austria.

As at the year end, of the short term deposits, US\$ 7.0 million (2001: US\$ 10 million, 2000: US\$ 6.5 million) were used as collateral to guarantee borrowings by other related parties.

Loans given to related parties were generally provided on an interest free basis, and were given to finance working capital and investments.

Current portion of available for sale shares represent the shares distributed to shareholders on September 16, 2002 as dividends (see note 23) and were valued at their recoverable amounts.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

17. Property, plant & equipment

The movements in property, plant & equipment are as follows:

	Buildings & constructions	Plant & machinery	Other productive assets	Total productive assets	Community & infrastructure assets	Construction in progress	Total assets
Fair value:							
December 31, 2001	279,106	1,731,662	32,963	2,043,731	18,156	191,036	2,252,923
Reclassifications	32	(11)	(30)	(9)	9		-
Additions - external	-	-	-	-	-	184,376	184,376
Disposals:							
External	(1,086)	(37,435)	(673)	(39,194)	(127)	(5,587)	(44,908)
To group companies	(12)	(2,577)	(228)	(2,817)	-	-	(2,817)
Transfer to materials	-	-	-	-	-	(6,544)	(6,544)
Transfer to financial assets	(1,524)	(18,428)	(917)	(20,869)	-	(5,324)	(26,193)
Transfers	18,334	105,178	7,477	130,989	6,729	(137,718)	-
December 31, 2002	<u>294,850</u>	<u>1,778,389</u>	<u>38,592</u>	<u>2,111,831</u>	<u>24,767</u>	<u>220,239</u>	<u>2,356,837</u>
Accumulated depreciation:							
December 31, 2001	21,916	174,418	5,911	202,245	809	125,293	328,347
Depreciation expense	21,965	167,282	6,373	195,620	1,105	-	196,725
Disposals:							
External	(139)	(9,223)	(188)	(9,550)	(53)	(1,899)	(11,502)
To group companies	(1)	(722)	(24)	(747)	-	-	(747)
Transfer to financial assets	(278)	(3,902)	(153)	(4,333)	-	(1,952)	(6,285)
Impairment	-	-	-	-	-	5,937	5,937
Transfers	487	3,487	37	4,011	4,833	(8,844)	-
December 31, 2002	<u>43,950</u>	<u>331,340</u>	<u>11,956</u>	<u>387,246</u>	<u>6,694</u>	<u>118,535</u>	<u>512,475</u>
Net book values:							
December 31, 2001	<u>257,190</u>	<u>1,557,244</u>	<u>27,052</u>	<u>1,841,486</u>	<u>17,347</u>	<u>65,743</u>	<u>1,924,576</u>
December 31, 2002	<u>250,900</u>	<u>1,447,049</u>	<u>26,636</u>	<u>1,724,585</u>	<u>18,073</u>	<u>101,704</u>	<u>1,844,362</u>
The company has no assets held under noncancelable leases, and the following assets, by category, held under capital leases at							
December 31, 2001							
Cost	-	16,188	-	16,188	-	-	16,188
Accumulated depreciation	-	(1,861)	-	(1,861)	-	-	(1,861)
Net book value	<u>-</u>	<u>14,327</u>	<u>-</u>	<u>14,327</u>	<u>-</u>	<u>-</u>	<u>14,327</u>
December 31, 2002							
Cost	-	15,890	-	15,890	-	-	15,890
Accumulated depreciation	-	(3,580)	-	(3,580)	-	-	(3,580)
Net book value	<u>-</u>	<u>12,310</u>	<u>-</u>	<u>12,310</u>	<u>-</u>	<u>-</u>	<u>12,310</u>
Net book values based on cost, less depreciation and impairment:							
December 31, 2001	<u>259,839</u>	<u>305,621</u>	<u>27,019</u>	<u>592,479</u>	<u>17,347</u>	<u>65,743</u>	<u>675,569</u>
December 31, 2002	<u>252,401</u>	<u>356,795</u>	<u>26,635</u>	<u>635,831</u>	<u>18,073</u>	<u>101,704</u>	<u>755,608</u>

Other productive assets include transmission equipment, transport equipment and tools

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

18. Amounts payable to related parties

	2002	2001	2000
Controlled related parties:			
Advances received	2,896	-	690
Trade accounts payable	7,836	2,083	1,136
Other accounts payable	508	8,650	9,164
Other related parties:			
Advances received	275	274	158
Trade accounts payable	10,623	1,968	3,553
Other accounts payable	14,761	4,108	2,652
	<u>36,899</u>	<u>17,083</u>	<u>17,353</u>

Purchases from related parties were as follows:

	2002	2001	2000
Non-capital purchases			
Controlled related parties	47,949	18,129	10,659
Other related parties	295,038	258,807	201,655
Capital purchases			
Controlled related parties	19,988	9,755	3,588
Other related parties	3,453	686	494
Services received			
Controlled related parties	25,040	40,948	17,121
	<u>391,468</u>	<u>328,325</u>	<u>233,517</u>

19. Other current liabilities

	2002	2001	2000
Advances received from customers	48,721	27,705	36,300
Amounts payable to employees	12,815	14,437	5,742
Other	4,216	1,513	4,070
Accrued expenses	2,754	2,754	2,755
	<u>68,506</u>	<u>46,409</u>	<u>48,867</u>

20. Debt finance

	2002	2001	2000
Russian banks	81,819	91,959	58,580
International banks	57,797	39,900	2,870
Promissory notes issued	8,270	-	-
Accrued interest	823	899	574
	<u>148,709</u>	<u>132,758</u>	<u>62,024</u>

Total debt is denominated in the following currencies:

	2002	2001	2000
Roubles	27,004	49,540	7,102
US dollars	120,508	83,218	54,922
Euro	1,197	-	-
	<u>148,709</u>	<u>132,758</u>	<u>62,024</u>

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

Total debt is contractually repayable after the balance sheet date as follows:

	2002	2001	2000
Less than one year	66,279	70,502	27,689
Between one and two years	42,985	24,645	14,286
Between two and five years	39,445	37,611	20,049
	<u>148,709</u>	<u>132,758</u>	<u>62,024</u>

These loans are secured by charges over US\$ 314.7 million net book value of plant & equipment (2001: US\$ 554 million; 2000: US\$ 88.1 million) and US\$ 23.4 million of working capital (2001: US\$ 21.7 million, 2000: US\$ 7.7 million).

At the balance sheet date the Company had US\$ 16.0 million of unused long term credit lines available to it (2001: US\$ 34.1 million, 2000: US\$ 40.0 million).

21. Lease liabilities

In past periods the Company entered into sale and lease back transactions with a subsidiary company, OOO Severstal-Holding, for some of its vehicles and computers. The leases are finance leases and accordingly the assets continue to be recognized in the Company's balance sheet. As the payments under the finance lease fall due, the proceeds from the sale become receivable. There are no contingent rents payable, and timing of the receivables (see note 14) and payables (see note 18) related to these leases is as follows:

	Lease payments	Lease commission	Lease principal	Receivable from sale	Net liability
As at December 31, 2002					
Less than one year	371	14	357	357	14
Between one and five years	64	2	62	62	2
	<u>435</u>	<u>16</u>	<u>419</u>	<u>419</u>	<u>16</u>
As at December 31, 2001					
Less than one year	604	23	581	581	23
Between one and five years	460	18	442	442	18
	<u>1,064</u>	<u>41</u>	<u>1,023</u>	<u>1,023</u>	<u>41</u>
As at December 31, 2000					
Less than one year	1,043	40	1,003	1,003	40
Between one and five years	1,138	43	1,095	1,095	43
	<u>2,181</u>	<u>83</u>	<u>2,098</u>	<u>2,098</u>	<u>83</u>

The lease commission is recognized in the statement of operations as it falls due.

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

22. Other non-current liabilities

	2002	2001	2000
Net liability for retirement benefits	<u>19,228</u>	<u>28,935</u>	<u>25,938</u>

A discount rate of 9.07% has been used to calculate the retirement benefit liability. Future retirement benefit increases are assumed to be zero in US dollar terms. The expected return on plan assets is 10.25%.

The components and movements in the retirement benefit liabilities were as follows:

	2002	2001	2000
Components of the net liability for retirement benefits:			
Present value of the defined benefit obligation	40,900	31,810	37,670
Fair value of the plan assets	(10,382)	(6,331)	-
Unrecognized actuarial gain/(loss)	(11,290)	3,456	(11,732)
	<u>19,228</u>	<u>28,935</u>	<u>25,938</u>
Movements in the net liability for retirement benefits:			
Net liability at beginning of year	28,935	25,938	26,496
Contributions made during the year	(7,888)	(8,892)	(2,056)
Amounts recognized in the statement of operations:			
Expected return on plan assets	(647)	(568)	-
Pension liability spun off	(989)	-	-
Interest cost	4,065	2,260	1,620
Service cost	440	727	487
Actuarial loss/(gain) recognized	(3,222)	10,963	482
Foreign exchange gain	(1,466)	(1,493)	(1,091)
Net liability at end of year	<u>19,228</u>	<u>28,935</u>	<u>25,938</u>
Components of the total defined benefit obligation:			
Retirees	26,333	21,826	23,951
Other participants:			
Vested	4,724	3,572	3,942
Non-vested	9,843	6,412	9,777
	<u>40,900</u>	<u>31,810</u>	<u>37,670</u>

The retirement benefit expenses are all recognized in the statement of operations as 'Selling, general & administration expenses'.

23. Shareholders' equity

The Company's authorized capital, according to its Charter Document, at the balance sheet date comprised 22,074,192 ordinary shares with a nominal value of Rbs 0.25 each. This nominal amount was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions. There have been no changes in the number of shares outstanding since September 24, 1993. All shares carry equal voting and distribution rights.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

The maximum dividend payable is restricted to the total accumulated retained earnings of the Company determined according to Russian law. As at the balance sheet date, reserves available for distribution were US\$ 934.3 million (2001: US\$ 795.5 million; 2000: US\$ 778.3 million).

On September 16, 2002 the Company distributed shares in OAO Severstal-auto and OAO Severstal-resource, thus finishing the restructuring of the group, which resulted in the spin off of investments in mining and automotive companies to Severstal's shareholders.

24. Commitments and contingencies

a. For litigation, tax and other liabilities

At the balance sheet date, the Company was subject to various claims from customers and suppliers and the tax authorities. At the date of preparation of these financial statements all tax claims notified prior to December 31, 2002 were rejected by the courts. Total contingencies in respect of customers and suppliers claims were US\$ 0.3 million (2001: US\$ 2.6 million, 2000: US\$ 4.3 million). Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements.

b. Long term purchase and sales contracts

In the normal course of business the Company enters into long term purchase contracts for raw materials, and long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

c. Capital commitments

At the balance sheet date the Company had capital commitments of US\$ 28.8 million (2001: US\$ 20.5 million, 2000: US\$ 14.0 million), through its capital construction department, mainly for manufacturing plant.

d. Insurance

From March 1, 2002 the Company contracted full property damage and business interruption insurance. However, the Company does not have full insurance for third party liability in respect of property or environmental damage.

e. Guarantees

At the balance sheet date the Company had given US\$ 23.8 million of guarantees for bank borrowings by third parties (2001: US\$ 12.7 million, 2000: US\$ 85.4 million), of which US\$ 16.9 million were in respect of related parties (2001: US\$ 3.7 million, 2000: US\$ 55.4 million). Of these guarantees, US\$ 9.8 million mature more than one year after the balance sheet date.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

25. Financial instruments

The Company does not use derivative financial instruments for any purpose.

The maximum exposure to credit risk is represented by the carrying amount of each financial instrument in the balance sheet. The balances of deposits with, short term loans to, and guarantees for related parties as at the balance sheet date is not considered to be a significant credit risk.

The Company incurs currency risk on transactions and balances not denominated in the measurement currency. At the balance sheet date 14.5% of the Company's net monetary assets were denominated in the measurement currency and a further 4.8% were denominated in Euros and other European currencies.

With the exception of equity securities, it is management's opinion that the fair values of the Company's financial assets and liabilities as at the balance sheet date approximate their book values. Equity securities are stated at their cost or their recoverable amounts where these are lower (see note 16).

In respect of debt finance, interest rates are either fixed or are at a fixed spread over Libor for the duration of each contract. In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their nominal interest rates at the balance sheet date:

	2002	2001	2000
Cash and cash equivalents			
US dollar denominated	1.50%	6.75%	6.75%
Rouble denominated	7.76%	37.30%	16.85%
Held to maturity financial assets	10.00%	-	5.50%
Originated loans	10.00%	11.00%	5.50%
Available for sale financial assets	10.00%	11.00%	5.50%
Debt finance:			
Rouble denominated	18.00%	4.06%	10.26%
US dollar denominated	7.65%	8.65%	12.29%
Euro denominated	3.86%	-	-
Lease liabilities	4.00%	4.00%	4.00%

Severstal

Notes to the parent company financial statements (Amounts expressed in thousands of US dollars)

26. Allocation of foreign exchange gains and losses

For the purposes of presenting the financial statements in US dollars the following foreign exchange gains/(losses) that arise on assets and liabilities denominated in roubles and other foreign currencies, were allocated to the statement of operations:

	2002	2001	2000
Selling, general & administration expenses	(4,123)	(1,674)	(766)
Indirect taxes & contributions	403	105	(121)
Other operating income	268	400	845
Other operating expenses	406	(261)	(528)
Net financing income/(expenses)	(14,107)	(19,935)	(2,654)
Income tax benefit/(expense)	(82)	(12)	315
	<u>(17,235)</u>	<u>(21,377)</u>	<u>(2,909)</u>

The above gains/(losses) were generated from the following balance sheet accounts:

	2002	2001	2000
Cash and cash equivalents	406	(261)	(528)
VAT recoverable	(3,015)	(1,636)	(1,260)
Other current assets	(3,305)	(3,180)	(906)
Deferred income	268	400	845
Other taxes and social security payable	403	105	(121)
Other current liabilities	521	416	309
Other non-current liabilities	1,466	1,493	1,091
Dividends payable	210	1,233	-
Sub-total	<u>(3,046)</u>	<u>(1,430)</u>	<u>(570)</u>
Available for sale securities	(4,389)	(2,001)	(834)
Originated loans & receivables	(11,279)	(16,844)	(1,510)
Bank deposits	(712)	(2,030)	(1,579)
Loans	2,273	940	1,269
Income tax payable/(recoverable)	(82)	(12)	315
	<u>(17,235)</u>	<u>(21,377)</u>	<u>(2,909)</u>

27. Related parties

A list of related parties controlled by Severstal during the year or at the balance sheet date is as follows:

Company	Location	Activity
ZAO Alliance-1420	Russia	Pipe manufacturing
NP Agency for City Development	Russia	Consultancy
OOO Aviacompany Severstal	Russia	Airline
OAO Cherepovets Steel Rolling Mill	Russia	Steel machining
OOO ChSPZ-MKR	Russia	Metalware production
NU Corporate University Severstal	Russia	Consultancy
OAO Domnaremont	Russia	Steel producing equipment repairs
OOO Electroremont	Russia	Steel producing equipment repairs

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

Company	Location	Activity
OOO Energoremont	Russia	Steel producing equipment repairs
OOO Engineering Center SSM -Tyazhmash	Russia	Project documentation
Formagione Trading Ltd	Cyprus	Steel sales
Industrial Research Corporation Ltd	BVI	Steel sales
OAO Insurance Company Sheksna	Russia	Insurance
OOO Ivushka	Russia	Recreation
ZAO Izhorsky Tube Factory	Russia	Pipe manufacturing
OOO Kados	Russia	Manufacture of metal working tools
OOO KOVNII	Russia	Research and development
NU Medical Center Rodnik	Russia	Recreation
OOO Meta-Invest	Russia	Financing
OAO Metallurgical Commercial Bank	Russia	Banking
OAO Metallurgremont	Russia	Steel producing equipment repairs
OOO Mini-brewery Munich Beer	Russia	Brewery
OOO Newspaper Courier	Russia	Mass-media
OAO NIIEIR	Russia	Research and development
OOO Oktyabrskoe	Russia	Agriculture
OAO Orel-ruda	Russia	Iron ore mining
OOO Promleasing	Russia	Financing
OOO Promyshlennaya Expertise	Russia	Asset valuation
OOO Promzhilstroy	Russia	Construction
OOO Publishing House Cherepovets	Russia	Printing and publishing
ZAO Radio-102	Russia	Radio station
OOO Restaurant Munich Beer	Russia	Catering
OOO Restaurant Rus	Russia	Catering
OOO Restaurant Sheksna	Russia	Catering
OOO Restaurant Three Poplars	Russia	Catering
OOO Security Agency Severstal	Russia	Security
NP Service-Center SMI	Russia	Radio and TV transmission equipment
ZAO Severgal	Russia	Galvanised steel production
SANO Severstal Ice Hockey Club	Russia	Ice hockey
Severstal Inc	USA	Steel sales
ZAO Severstalbel	Byelorussia	Steel sales
OOO SeverstalMIT	Russia	Meat processing
AO Severstallat	Latvia	Steel sales
Severstal Exp ort Gmbh	Switzerland	Steel sales
Severstal Trade Inc	USA	Steel sales
Severstal Trade Gmbh	Austria	Holding company
OOO Severstal-Holding	Russia	Holding company
RNPF Sheksna Gefest	Russia	Pension fund provider
OAO Sheksna M	Russia	Medical insurance
OAO Sheksna Pharma	Russia	Pharmaceutical distribution
OOO Sheksna Tour	Russia	Travel agent
OOO Shop Oktyabrsky	Russia	Retailing
OOO Shop Shans	Russia	Retailing
OOO SSM -Tyazhmash	Russia	Steel producing equipment repairs
Star Insurance Company Ltd	Isle of Man	Insurance
OOO Svoi Produkt	Russia	Catering
ZAO Shukhobodskoe	Russia	Agriculture
OAO Zavod SPU	Russia	Software
ZAO Zemledelets-Severstal	Russia	Agriculture

Details of the transactions with all related parties are given in notes 9, 14 and 18.

Severstal

Notes to the parent company financial statements

(Amounts expressed in thousands of US dollars)

28. Subsequent events

In February 2003, the Board of Directors decided to issue four year interest-bearing non-convertible Rouble bonds. Severstal will issue 3 million bonds with a nominal value of Rbs 1,000 each. The bonds will be issued on the Moscow International Currency Exchange (MICEX). Coupon income will be payable twice a year. The interest rate for the first four coupons will be determined by auction on the day of issue, and the interest rate the last four coupons will be determined by Severstal based on prevailing market conditions.

In May 2003, the Annual Meeting of Shareholders declared a dividend payment of Rbs 72.00 per share to shareholders in respect of 2002.

During May and June 2003, Severstal financed the purchase of various coal mining assets in the Komi Republic for US\$ 175.5 million.

In June 2003, as the result of participating in the privatization auction of OAO Vorkutaugol, Severstal acquired 39.8% of the share capital for US\$ 27.3 million.

In July 2003, the Board of Directors proposed the payment of an interim dividend of Rbs 194.00 per share in respect the results of the first half of 2003.

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