SEVERSTAL

Special purpose
consolidated financial statements
for the year ended December 31, 2003

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Contents

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Independent Auditor's Report

The Board of Directors
OAO Severstal

We have audited the accompanying special purpose consolidated balance sheet of Severstal and its subsidiaries (the "Group") as of 31 December 2003 and the related special purpose consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These special purpose consolidated financial statements, as set out on pages 2 to 43, are the responsibility of the Group's management. Our responsibility is to express an opinion on these special purpose 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.

The accompanying special purpose consolidated financial statements have been prepared for the purpose of presenting the consolidated financial position, results of operations, changes in shareholders' equity and cash flows of the Group as of 31 December 2003 as if the Group structure that came in place on 16 September 2002 had been in place before 1 January 2001. The basis of preparation of the special purpose consolidated financial statements is explained in note 2 to these special purpose consolidated financial statements. These special purpose consolidated financial statements are not necessarily indicative of the results or related effects on the financial position that would have been attained had the above-mentioned Group structure actually been in place before 1 January 2001.

In our opinion, the special purpose consolidated financial statements present fairly, in all material respects, the special purpose financial position of the Group as of 31 December 2003, and the special purpose 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, adjusted to give effect to the special purpose Group structure as described in the preceding paragraph.

KPMG Limited.

KPMG Limited
Moscow, Russian Federation
30 August 2004

Severstal

Special purpose consolidated balance sheet
December 31, 2003
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2003	2002	2001
Assets				
Current assets:				
Cash and cash equivalents	13	463,659	189,397	101,047
Reserves at Central Bank of Russia		13,247	2,520	4,897
Banking assets	14	117,559	39,058	20,737
Trade accounts receivable	15	165,994	124,288	95,943
Inventories	16	339,278	246,817	247,047
Amounts receivable from related parties	17	51,469	41,652	35,521
VAT recoverable		83,164	48,532	36,292
Income tax recoverable		2,216	1,506	4,136
Other current assets	18	70,790	93,261	104,817
Lease receivables	19	202	416	990
Financial assets	20	256,102	330,327	155,380
Total current assets		1,563,680	1,117,774	806,807
Non-current assets:				
Amounts receivable from related parties	17	181,443	-	-
Lease receivables	19	29	161	475
Financial assets	21	157,079	115,079	168,495
Property, plant and equipment	22	1,940,810	1,960,247	2,026,561
Intangible assets	23	1,149	197	318
Total non-current assets		2,280,510	2,075,684	2,195,849
Total assets		3,844,190	3,193,458	3,002,656
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		107,622	117,945	93,540
Bank customer accounts	24	50,879	6,857	5,617
Amounts payable to related parties	25	35,970	33,851	10,345
Income taxes payable		5,946	8,501	579
Other taxes and social security payable		17,140	22,448	28,169
Deferred income		2,101	3,665	5,934
Debt finance	26	180,748	92,556	98,510
Lease liabilities	27	246	689	285
Dividends payable		39,481	564	19,352
Other current liabilities	28	126,648	84,555	62,867
Total current liabilities		566,781	371,631	325,198
Non-current liabilities:				
Debt finance	26	342,917	83,796	64,715
Lease liabilities	27	447	631	799
Deferred tax liabilities	12	242,524	286,171	337,549
Other non-current liabilities	29	39,742	50,790	37,173
Total non-current liabilities		625,630	421,388	440,236
Minority interest		54,720	34,835	47,956
Shareholders' equity:				
Share capital	30	3,311,129	3,311,129	3,311,129
Additional capital		-	136	136
Revaluation reserve		728,467	832,048	949,245
Accumulated deficit		(1,442,537)	(1,777,709)	(2,071,244)
Total shareholders' equity		2,597,059	2,365,604	2,189,266
Total liabilities and shareholders' equity		3,844,190	3,193,458	3,002,656

These financial statements were approved by the Board of Directors on August 30, 2004.

The accompanying accounting policies and notes on pages 6 to 43
form an integral part of these special purpose consolidated financial statements.

Severstal

Special purpose consolidated statement of operations
Year ended December 31, 2003
(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	Note	Year ended December 31, 2003	2002	2001
Sales				
Sales - external		2,919,195	2,041,373	1,908,297
Sales - to related parties	17	282,620	231,778	103,345
	4	3,201,815	2,273,151	2,011,642
Cost of sales		(1,913,792)	(1,509,367)	(1,484,096)
Gross profit		1,288,023	763,784	527,546
Indirect taxes and contributions		(19,084)	(37,573)	(36,824)
Selling, general and administration expenses		(162,560)	(114,158)	(77,740)
Distribution expenses		(314,584)	(278,094)	(223,870)
Net other operating expenses	5	(3,829)	(25,936)	(13,704)
Net expenses with insurance operations	7	(9,195)	(15,754)	(8,769)
Net income from bank lending operations	8	1,899	3,061	5,577
Net income/(expenses) from securities operations	9	24,936	(7,125)	(61,252)
Profit from operations		805,606	288,205	110,964
Non-operating expenses	10	(19,979)	(21,693)	(66,571)
Impairment of property, plant and equipment	22	(5,413)	(10,035)	(2,106)
Impairment of goodwill	23	(10,548)	-	-
Write off of negative goodwill	23	3,763	6,775	-
Share of associates income		(381)	53	-
Profit before financing and taxation		773,048	263,305	42,287
Net financing (expense)/income	11	(12,990)	(18,383)	1,625
Profit before income tax		760,058	244,922	43,912
Income tax expense	12	(162,358)	(63,289)	(38,329)
Profit for the year		597,700	181,633	5,583
Profit attributable to minorities		(7,129)	(1,292)	(4,915)
Profit attributable to shareholders		590,571	180,341	668
Weighted average number of shares outstanding during the year		22,074,192	22,074,192	22,074,192
Basic and diluted earnings per share		26.75	8.17	0.03

The accompanying accounting policies and notes on pages 6 to 43
form an integral part of these special purpose consolidated financial statements.

Severstal

Special purpose consolidated statement of cash flows
Year ended December 31, 2003
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2003	**2002**	**2001**
Operating activities:			
Profit before financing and taxation	773,048	263,305	42,287
Adjustments to reconcile profit to cash provided by operating activities:			
Depreciation of property, plant and equipment	228,859	207,717	201,504
Amortization of intangible assets	109	66	109
Asset impairment	18,909	10,035	2,106
Negative goodwill written off	(3,763)	(6,775)	-
Foreign exchange (gain)/loss	(53,109)	16,554	12,682
Loss on disposal of property, plant and equipment	20,345	32,546	20,294
Loss on disposal of intangible assets	-	71	-
Loss on deconsolidation of OAO Pansionat Sheksna	-	772	-
Loss/(profit) on disposal of financial assets	415	(1,930)	(928)
Adjustment of financial assets to fair value	14,999	(6,349)	46,208
Share of associates income	381	(53)	-
Bank loan loss provisions	2,303	(191)	31
Provision for doubtful accounts receivable	(3,680)	824	(471)
Changes in operating assets and liabilities:			
Reserves at Central Bank of Russia	(10,727)	2,377	12,820
Banking assets	(80,804)	(18,130)	135,845
Trade accounts receivable	(31,871)	(30,173)	4,408
Amounts receivable from related parties	(191,260)	(6,131)	13,546
VAT recoverable	(29,147)	(15,660)	(9,548)
Inventories	(86,831)	(9)	(27,562)
Lease receivables	289	815	1,447
Other current assets	3,472	5,189	(20,002)
Short term bank deposits	(107,183)	(9,689)	3,163
Trade accounts payable	(11,362)	27,434	41,562
Bank customer accounts	44,022	1,240	(45,185)
Amounts payable to related parties	2,119	23,506	(3,945)
Other taxes and social security payable	14,372	(2,627)	(9,505)
Deferred income	(1,708)	(1,394)	(1,088)
Other current liabilities	32,380	22,216	989
Other non-current liabilities	(15,033)	15,137	(6,646)
Cash generated from operations	529,544	530,693	414,121
Interest received (excluding banking operations)	21,139	9,286	12,134
Interest paid (excluding banking operations)	(24,122)	(24,882)	(10,364)
Income tax paid	(208,086)	(104,115)	(117,376)
Net cash provided from operating activities	318,475	410,982	298,515
Investing activities:			
Additions to property, plant and equipment	(249,614)	(198,907)	(99,477)
Additions to intangible assets	-	(16)	(64)
Additions to financial assets	(85,778)	(446,655)	(210,284)
Buy out of minority interests	(6,475)	(9,731)	-
Net cash outflow on acquisition of OOO Uralmash MO	(13,774)	-	-
Net cash outflow on deconsolidation of OAO Pansionat Sheksna	-	(276)	-
Acquisition from company under common shareholder control	(9,095)	(4,003)	-
Restructuring loss	-	-	(132,751)
Proceeds from disposal of property, plant and equipment	5,096	11,466	10,558
Proceeds from disposal of financial assets	254,315	327,967	984
Proceeds from disposal of treasury shares	-	-	8
Cash used for investing activities	(105,325)	(320,155)	(431,026)
Financing activities:			
Proceeds from debt finance	606,848	354,201	176,223
Repayment of debt finance	(273,466)	(340,912)	(121,543)
Proceeds from lease finance	-	404	791
Repayment of lease finance	(626)	(170)	-
Parent company dividends paid	(307,559)	(18,578)	(24,976)
Minority capital contributions	22,994	2,093	-
Cash provided from financing activities	48,191	(2,962)	30,495
Effect of exchange rates on cash and cash equivalents	12,921	485	(529)
Net (decrease)/increase in cash and cash equivalents	274,262	88,350	(102,545)
Cash and cash equivalents at beginning of year	189,397	101,047	203,592
Cash and cash equivalents at end of year	463,659	189,397	101,047

The accompanying accounting policies and notes on pages 6 to 43
form an integral part of these special purpose consolidated financial statements.

Severstal

Special purpose consolidated statement of changes in shareholders' equity
Year ended December 31, 2003
(Amounts expressed in thousands of US dollars)
(2000 unaudited)

	Share capital	Additional capital	Treasury shares	Revaluation reserve	Accumulated deficit	Total
Balances at December 31, 2000	3,311,129	136	(213)	972,921	(1,995,187)	2,288,786
Dividends:						
cash dividend	-	-	-	-	(45,561)	(45,561)
Disposal of treasury shares	-	-	213	-	(205)	8
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 and 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
Restructuring loss	-	-	-	-	(132,751)	(132,751)
Profit attributable to shareholders	-	-	-	-	668	668
Balances at December 31, 2001	3,311,129	136	-	949,245	(2,071,244)	2,189,266
Realization of revaluation reserve:						
Disposals	-	-	-	(26,160)	26,160	-
Depreciation	-	-	-	(128,048)	128,048	-
Deferred tax on realization	-	-	-	37,011	(37,011)	-
Acquisition from company under common shareholder control	-	-	-	-	(4,003)	(4,003)
Profit attributable to shareholders	-	-	-	-	180,341	180,341
Balances at December 31, 2002	3,311,129	136	-	832,048	(1,777,709)	2,365,604
Dividends:						
cash dividend	-	-	-	-	(346,269)	(346,269)
Realization of revaluation reserve:						
Disposals	-	-	-	(8,759)	8,759	-
Depreciation	-	-	-	(122,595)	122,595	-
Deferred tax on realization	-	-	-	31,525	(31,525)	-
Impairment of property, plant and equipment:						
Impairment	-	-	-	(4,936)	-	(4,936)
Deferred tax on impairment	-	-	-	1,184	-	1,184
Acquisition from company under common shareholder control	-	(136)	-	-	(8,959)	(9,095)
Profit attributable to shareholders	-	-	-	-	590,571	590,571
Balances at December 31, 2003	3,311,129	-	-	728,467	(1,442,537)	2,597,059

The accompanying accounting policies and notes on pages 6 to 43
form an integral part of these special purpose consolidated financial statements.

1. Operations

The special purpose consolidated financial statements of OAO Severstal ('the Group') comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company'), and those companies that remained its subsidiaries after corporate restructuring was completed during 2002. The corporate restructuring had two components: (i) the disposal to ZAO Severstal-Group of various investments during December 2001; and (ii) the spin-off, by way of a dividend payment, in respect of 2001, to shareholders on September 16, 2002, of shares in certain subsidiaries owned by Severstal.

Severstal 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, Severstal was registered as a Joint Stock Company and privatized. Severstal's registered office is located at Ul. Mira 30, Cherepovets, Russia. The Parent Company's shares are quoted on the Russian Trading System. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov has purchased shares in Severstal such that as at the balance sheet date he controlled, directly or indirectly, 82.75% of Severstal's share capital.

The Group comprises the following segments:

- *Steel segment* – this segment operates a full cycle integrated iron and steel mill in Cherepovets and associated supporting companies for its maintenance and the sale of its products in the Russian and overseas markets.
- *Metiz segment* – this segment operates a large complex of wire drawing equipment that takes long products (mainly wire) from the Steel segment and turns them into products with a higher value added for the Russian and overseas markets.
- *Financing segment* – this segment operates a retail bank and a leasing company. In September 2001, virtually all the of the bank's retail assets and liabilities were sold to OAO Promstroibank (St Petersburg) so that the bank could concentrate on corporate clients only.
- *Insurance segment* – this segment operates a general insurance company; a specialist medial insurance company; and pension fund management company . As this sector of the Russian economy has reformed over recent years this segment has increased the size of it operations both geographically and financially.

A segmental analysis of the consolidated balance sheet and statement of operations is given in note 36.

The Group is mainly 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 Group and the realization and settlement of its assets and liabilities.

The Group's international sales of rolled steel have been the subject of several anti-dumping investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution.

(Amounts expressed in thousands of US dollars)

2. Presentation of the financial statements

These special purpose consolidated financial statements have been extracted from the general purpose consolidated financial statements of OAO Severstal for the year ended December 31, 2003. Consequently, they reflect the Group as if the group structure that came into place on September 16, 2002 had been in place before January 1, 2001. As a result, shares in the mining and automotive companies that were spun off by way of a dividend payment on September 16, 2002, have been excluded from the balance sheet and charged directly to retained earnings in the periods when they were acquired. Additionally, investments disposed of in December 2001 as part of the restructuring have been excluded as if they had been disposed of before January 1, 2001.

In connection with the above restructuring, shares in subsidiaries that were spun off in 2002 were independently valued, which resulted in losses to the Parent Company. These restructuring losses have been charged directly to retained earnings.

Reconciliations between the net assets and net profits shown in the general purpose consolidated financial statements for the year ended December 31, 2003 and the net assets and profits shown in these special purpose consolidated financial statements are as follows:

	2003	**2002**	**2001**
Net assets shown in the general purpose consolidated financial statements	2,597,059	2,365,604	2,230,447
Assets spun off on September 16, 2002			
mining segment spun off	-	-	(39,351)
minority interest in mining segment spun off	-	-	11,476
other investments spun off	-	-	(8,776)
loans to mining companies	-	-	(4,530)
Net assets shown in these special purpose consolidated financial statements	2,597,059	2,365,604	2,189,266
Net profit/(loss) attributable to shareholders shown in the general purpose consolidated financial statements	590,571	180,533	(119,988)
Losses of the mining segment	-	5,774	557
Minority interest in mining segment	-	(482)	(338)
Loans to mining segment	-	(5,484)	61
Impairment of investments spun off	-	-	123,285
Minority interest calculated at actual amounts	-	-	(3,599)
Other	-	-	690
Net profit attributable to shareholders shown in these special purpose consolidated financial statements	590,571	180,341	668

(Amounts expressed in thousands of US dollars)

In previous periods Severstal published pro-forma consolidated financial statements for the restructured group. Reconciliations between the net assets and profits/(losses) shown in these special purpose consolidated financial statements and those shown in the previously published pro-forma consolidated financial statements are as follows:

	2002	**2001**
Net assets shown in the previously published pro-forma consolidated financial statements	2,373,251	2,184,260
Change in accounting policy for retirement benefit liabilities:		
change in provision	(14,927)	3,271
deferred tax effects of change	1,355	(415)
minority interest effects of change	900	74
Acquisition of ZAO Firma Stoik from common shareholder:		
net assets of ZAO Firma Stoik	2,855	2,005
effect on minority interest	80	71
Positive and negative goodwill written off	2,090	-
Net assets shown in these special purpose consolidated financial statements	2,365,604	2,189,266

	2002	**2001**
Net profit/(loss) attributable to shareholders shown in the previously published pro-forma consolidated financial statements	188,991	(15,341)
Change in accounting policy for retirement benefit liabilities:		
change in provision	(18,198)	16,687
deferred tax effects of change	1,770	(415)
minority interest effects of change	826	(967)
Acquisition of ZAO Firma Stoik from common shareholder:		
net profits of ZAO Firma Stoik	850	710
effect on minority interest	9	(6)
Positive and negative goodwill written off	6,114	-
Other	(21)	-
Net profit attributable to shareholders shown in these special purpose consolidated financial statements	180,341	668

In the previously published pro-forma consolidated financial statements, the actuarial gains and losses arising from the Group's retirement benefit liabilities were recognized in the following year's statement of operations. In the general purpose consolidated financial statements this policy was altered to recognize such gains and losses in the current year's statement of operations. Management believes that this change results in a more relevant and reliable presentation of the Group's financial position and performance.

Statement of compliance

These special purpose consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, adjusted to give effect to the special purpose Group structure as described in note 1. They are prepared under the historic cost convention except that property, plant and equipment; derivative financial instruments; and, available for sale and held for trading securities are stated at fair value. The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these special purpose consolidated financial statements are set out in note 3.

Use of estimates

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.

Early adoption of IFRS

In the preparation of the general purpose consolidated financial statements of the Group from which these special purpose consolidated financial statements are extracted, management elected to apply the requirements of the following new and revised reporting and accounting standards before their effective dates:

- IFRS 3 '*Business Combinations*';
- IAS 21 '*The Effects of Changes in Foreign Exchange Rates*';
- IAS 36 '*Impairment of Assets*'; and,
- IAS 38 '*Intangible Assets*'.

Going concern basis

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.

Functional and presentation currency

The national currency of the Russian Federation is the rouble. Management has determined the Parent Company's functional currency to be the United States dollar ('US dollar') because it reflects the economic substance of the underlying events and circumstances of the Parent Company. Although under continuous review in the light of recent changes in the Russian economic environment, management has determined the US dollar continues to be the functional currency of the Parent Company, however, as the Russian economy continues to develop this may change. In making this assessment, management has considered the following matters:

- a significant portion of revenues are earned from exports which are invoiced and collected in US dollars;
- the ability to retain a significant amount of sales receipts in US dollars;
- a significant portion of property, plant and equipment purchases are imported and invoiced and settled in US dollars;
- a significant portion of financing is attracted in US dollars.

The US dollar is also the Group's presentation currency for the purposes of these consolidated financial statements.

The rouble is not a fully 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.

Basis of consolidation

Subsidiaries are those enterprises controlled by the Parent Company after the restructuring was completed. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest represents the minorities' proportion of the net identifiable assets of the subsidiaries.

Associates are those enterprises in which, after restructuring, the Group has significant influence, but does not have control over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains and losses are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

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 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 33 of these financial statements.

e. Financial instruments

Classification

Trading instruments are those that the Group holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Originated loans are loans created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances other than purchased loans.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale financial assets are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

Recognition

The Group recognizes financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets. Held-to-maturity assets and originated loans and receivables are recognized on the day they are transferred to or originated by the Group.

Measurement

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate 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.

Fair value measurement principle

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement
Gains and losses arising from a change in the fair value of all trading instruments and available-for sale securities trading are recognized in the statement of operations.

f. Property, plant and equipment

Property, plant and equipment is stated at fair market value. 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 and equipment are recognized in the statement of operations.

Depreciation is provided so as to write off property, plant and 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 are as follows:

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

With effect from January 1, 2001 management commissioned an independent appraiser to assess the value of its productive property, plant and equipment for the purpose of financial reporting. The valuation procedures determined the fair market value of the Group's property, plant and equipment as at January 1, 2001. Management used similar procedures to value the Group's community and infrastructure assets as at January 1, 2001. As a result of this valuation, for items of property, plant and equipment where there was a surplus of fair market value over original net book value, a revaluation reserve, net of deferred tax, was established. For items of property, plant and equipment where the fair market value was less than original net book value, an impairment loss was recognized. As at the date of the valuation, accumulated depreciation was offset against cost, and cost was restated to fair market value.

As the revaluation reserve is realized through depreciation and disposal of the corresponding items of property, plant & equipment the relevant portion of the revaluation reserve, net of deferred tax, is transferred directly into retained earnings.

As at the balance sheet date, management has reviewed the carrying amounts of property, plant and equipment, and has found no indications that the fair market value significantly exceeds the carrying amount of property, plant and equipment.

g. Leases

Finance leases
Leases under which the Group 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.

Operating leases
Payments made under operating leases are recognized in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognized in the statement of operations as an integral part of the total lease payments made.

h. Intangible assets

Goodwill
Goodwill arising on 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 impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill
Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. All negative goodwill is written off to the statement of operations as it arises.

Other intangible assets
Other intangible assets, which have finite useful lives, are stated at fair market value. Expenditure on internally generated goodwill and brands is recognized in the statement of operations as an expense as incurred. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization
Amortization is charged to the statement of operations on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets, excluding goodwill, are amortized from the date they are available for use – goodwill is not amortized. The estimated useful lives are as follows:

Software	3 – 7 years
Technical drawings	5 – 15 years

i. Asset impairment

The carrying amounts of the Group’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.

Calculation of 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.

Reversals of impairment
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.

An impairment loss in respect of goodwill is not reversed.

j. Share capital

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

Dividends
Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

k. Indirect taxes and contributions

Indirect taxes and 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.

l. 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 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 Group 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; and,
- goodwill.

m. Interest-bearing liabilities

Debt finance

Debt finance is stated at amortized cost and includes accrued interest at the balance sheet date. The difference between cost and redemption value is recognized in the statement of operations over the period of the borrowings on an effective interest basis. Borrowing costs on loans specifically for the purchase or construction of property, plant and 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.

Other interest-bearing liabilities

Interest-bearing liabilities are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of operations over the period of the liabilities. When liabilities are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the statement of operations.

n. Income recognition

Sales revenues

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.

Banking income

Interest income is recognized in the statement of operations as it accrues. Fees receivable from customers to reimburse the Group for costs incurred are recognized as income on an accruals basis. Fees relating to the ongoing provision of services to customers are recognized as income in proportion to the service provided in the year. Other fees receivable are accounted for on an accruals basis.

Insurance income

Premiums on insurance contracts are recognized when the contract is signed. Gross premiums written comprise all amounts due during the financial year in respect of insurance contracts entered into regardless of the fact that such amounts may relate to subsequent accounting periods. Inter alia, gross premiums written include reinsurance premiums due from ceding and retro-ceding insurance undertakings. Cancelled premiums are deducted from gross premiums written. Unearned premiums are calculated for each individual contract using the daily pro-rata method and take into account the risk profile of the contract.

Insurance claims
Insurance claims paid comprise all payments made during the financial year. Claims paid also include external and internal claims management costs. Recoveries from salvage and subrogation are deducted.

o. Retirement benefits

The Group voluntarily pays a charitable retirement benefit to former employees. The Group's net obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan 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 Group'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 current year's statement of operations.

p. Net financing (expense)/income

Net financing (expense)/income comprises interest on debt finance, interest income and foreign exchange gains and losses.

Interest is recognized in the statement of operations as it accrues, taking into account the effective yield on the asset and the liability.

All interest and other costs incurred in connection with borrowings, which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred as part of net financing costs. The interest expense component of finance lease payments is recognized in the statement of operations using the effective interest rate method.

q. Earnings per share

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

r. Related parties

The following are defined by the Group 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 Group companies 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.

s. Common control transactions

Acquisitions of controlling interests in companies that are under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented; for this purpose comparatives are restated. The assets and liabilities acquired are recognized at their previous book values. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as part of additional paid in capital. Any cash paid for the acquisition is debited to equity.

t. Provisions

Outstanding insurance claims provision
The outstanding insurance claims provision is a provision for future payment obligations under insurance claims. It includes provision for: (i) claims reported but not settled at the balance sheet date; and (ii) estimates of claims incurred but not yet reported at the balance sheet date. The provision for outstanding claims is calculated at the amount considered necessary to settle claims in full. Unusual claims are considered individually and past experience is taken into account as well as current and future expected economic factors when determining the amounts to provide.

The re-insurers' share in technical provisions comprises actual and estimated amounts, which under terms of reinsurance agreements, are covered by re-insurers. The re-insurers' share in the provision for unearned premiums is calculated using the methods consistent with those described above in note 3(n) 'Insurance income – provision for unearned premiums'.

Other provisions
Other provisions are recognized in the balance sheet when the Group 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.

u. Deferred income

In previous years the Group 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.

v. Environmental

Capital expenditures for ongoing environmental compliance measures are recorded in the consolidated balance sheet, and related expenses are recognized as normal business operating expenses. Where the Group is obligated to undertake certain environmental remediation-related activities, the fair value of this obligation is recorded as a liability in the period in which this legal obligation is incurred, and is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash outflows underlying this obligation. A corresponding amount is capitalized to the cost of the asset which will require environmental remediation, and is depreciated over the useful life of the asset.

(Amounts expressed in thousands of US dollars)

4. Sales

Sales by product were as follows:

	2003	2002	2001
Hot rolled sheet	1,193,730	721,434	699,931
Cold rolled sheet	651,694	412,557	413,636
Further processed products	424,574	377,605	236,072
Hot rolled sections	287,364	200,759	153,693
Wire	117,473	73,936	59,361
Semi finished products	78,670	102,314	73,764
Chemical by-products	47,856	32,519	42,124
Fastenings	33,885	26,606	25,008
Wire rope	27,977	18,253	17,149
Netting	13,246	8,888	7,360
Welding rods	10,681	5,636	4,849
Other	55,214	83,225	120,338
Shipping and handling costs billed to customers	259,451	209,419	158,357
	3,201,815	2,273,151	2,011,642

Sales by delivery destination were as follows:

	2003	2002	2001
Russian Federation	1,858,657	1,163,739	1,163,987
Europe	441,075	333,057	292,452
South-East Asia	216,087	217,948	101,711
Central Asia	304,208	139,930	38,646
The Middle East	193,792	109,931	82,876
Africa	99,413	102,740	107,251
Central America	62,993	59,830	59,537
South America	22,441	40,093	55,325
United States of America	3,149	105,883	109,857
	3,201,815	2,273,151	2,011,642

5. Net other operating expenses

	2003	2002	2001
Amortization of deferred income	3,498	3,029	2,850
Fee and commission income	1,158	945	5,232
Other income	1,508	991	716
Loss on disposal of property, plant and equipment	(20,345)	(32,568)	(17,840)
Expenses on social and research projects	(2,247)	(2,145)	(1,782)
Tax penalties	(178)	2,740	(2,753)
Political donations	-	(217)	-
Loss on disposal of intangible assets	-	(71)	-
Foreign exchange gains/(losses) on:			
cash balances	12,921	485	(529)
deferred income	(144)	875	402
	(3,829)	(25,936)	(13,704)

(Amounts expressed in thousands of US dollars)

6. Staff costs

Employment costs were as follows:

	2003	2002	2001
Wages and salaries	(224,917)	(185,765)	(168,335)
Social security costs	(67,788)	(58,484)	(55,863)
Retirement benefit costs - defined benefit plans (see note 29)	(2,919)	(4,429)	(2,982)
Gross staff costs	(295,624)	(248,678)	(227,180)
Actuarial (losses)/gains recognized (see note 29)	(5,368)	(15,143)	3,270
Foreign exchange (losses)/gains on unpaid liabilities:			
Wages, salaries and social benefits	(633)	342	452
Social security costs	(268)	192	226
Retirement benefit provision (see note 29)	(3,985)	1,520	2,518
Net staff costs	(305,878)	(261,767)	(220,714)

Included within the total social security costs paid to governments are payments to state pension funds totaling US$ 56.3 million (2002: US$ 45.2 million; 2001: US$ 45.4 million).

The number of full time employees at the year end were as follows:

	2003	2002	2001
Iron and steel manufacture and sales	36,858	36,145	42,857
Metal reprocessing and machining	6,876	6,844	6,697
Other activities	11,613	9,450	5,755
Total active employees	55,347	52,439	55,309
Retired employees receiving benefits	23,432	22,861	23,370
	78,779	75,300	78,679

7. Net expenses from insurance operations

	2003	2002	2001
Gross premium income:			
Life insurance	-	-	1
Non-life insurance	11,311	7,763	5,627
From related parties	6,827	3,613	222
Outward reinsurance premiums	(28,009)	(16,995)	(9,817)
Claims paid:			
Life insurance	-	-	(36)
Non-life insurance	(4,077)	(5,395)	(3,826)
To related parties	(680)	(299)	(11)
Re-insurers' share of claims paid	648	275	2,071
Change in technical reserves	4,785	(4,716)	(3,000)
	(9,195)	(15,754)	(8,769)

(Amounts expressed in thousands of US dollars)

8. Net income from bank lending operations

	2003	2002	2001
Interest income:			
Placements with other financial institutions	861	408	2,574
Loans to bank customers:			
- external	2,109	1,806	2,945
- related parties	1,774	1,034	1,534
Interest expense:			
Deposits from other financial institutions	(410)	(28)	(35)
Client accounts:			
- external	(397)	(487)	(1,731)
- related parties	(5)	(80)	(54)
Loan loss provisions:			
Specific	(2,611)	151	(604)
General	308	40	573
Leasing:			
Operating lease income	277	49	69
Finance lease interest income	50	241	480
Foreign exchange losses on lease receivables	(57)	(73)	(174)
	1,899	3,061	5,577

9. Net income/(expenses) from securities operations

	2003	2002	2001
Held-for-trading securities:			
Net trading income	1,432	245	520
Restatement to fair value	2,402	1,171	1,191
Held to maturity securities and originated loans:			
Coupon income	22	39	512
Profit on disposal	-	-	65
Foreign exchange gain/(loss)	38,504	(15,688)	(17,004)
Restatement to fair value	(15,974)	(863)	(39,781)
Available-for-sales securities – held for investment purposes:			
Profit on disposal	321	1,930	863
Loss on disposal of Severstal-Mebel and Severstal-Emal	(736)	-	-
Restatement to fair value	(1,427)	6,041	(7,618)
Dividends received	392	-	-
	24,936	(7,125)	(61,252)

10. Non-operating expenses

	2003	2002	2001
Social expenditure	(8,996)	(11,589)	(13,600)
Charitable donations	(8,681)	(8,215)	(49,551)
Depreciation of community and infrastructure assets	(2,302)	(1,117)	(961)
Loss on deconsolidation of OAO Pansionat Sheksna (see note 34)	-	(772)	-
Loss on transfer of kindergartens to city administration	-	-	(2,459)
	(19,979)	(21,693)	(66,571)

(Amounts expressed in thousands of US dollars)

11. Net financing (expense)/income

	2003	2002	2001
Interest income:			
Related parties	11,190	2,627	720
External banks	9,949	6,659	11,414
Interest expense:			
Related parties	(454)	(930)	(27)
External banks	(24,681)	(23,828)	(10,635)
Finance lease interest	-	(2)	(2)
Foreign exchange gains/(losses) on:			
Short term deposits	3,678	(2,947)	(2,460)
Debt finance	(12,673)	38	2,615
Unpaid lease liabilities	1	-	-
	(12,990)	(18,383)	1,625

12. Taxation

The following is an analysis of the income tax expense:

	2003	2002	2001
Current tax charge	(213,084)	(122,307)	(107,289)
Corrections to prior year's current tax charge	8,396	7,753	65
Deferred tax benefit	42,463	51,378	54,747
Effect of change in tax rate on deferred tax	-	-	14,181
Foreign exchange loss on unpaid liabilities	(133)	(113)	(33)
Income tax expense	(162,358)	(63,289)	(38,329)

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the statutory tax rate of 24% (2002: 24%; 2001: 31%) to reported profit before income tax.

	2003	2002	2001
Profit before income tax	760,058	244,922	43,912
Tax charge at the statutory rate	(182,414)	(58,781)	(13,613)
Non tax deductible items	(19,339)	(12,199)	(49,696)
Tax incentives	-	-	31,995
Activities taxed at different rates	11,668	650	(738)
Effect of exchange rate differences on temporary differences	19,464	(599)	(20,490)
Effect of change in tax rate on deferred tax	-	-	14,181
Corrections to prior year's current tax charge	8,396	7,753	65
Foreign exchange loss on unpaid liabilities	(133)	(113)	(33)
Income tax expense	(162,358)	(63,289)	(38,329)

(Amounts expressed in thousands of US dollars)

The composition of, and movements in, the net deferred tax liability based on the temporary differences arising between the fiscal and reporting balance sheets of the consolidated companies, is given below:

	Property, plant and equipment	Provisions	Other	Total
Balances at December 31, 2000	(522,697)	8,632	15,972	(498,093)
Recognized in:				
Statement of operations	71,120	(7,708)	5,516	68,928
Statement of changes in shareholders' equity	91,616	-	-	91,616
Balances at December 31, 2001	(359,961)	924	21,488	(337,549)
Recognized in:				
Statement of operations	40,160	4,985	6,233	51,378
Balances at December 31, 2002	(319,801)	5,909	27,721	(286,171)
Recognized in:				
Statement of operations	52,793	(1,440)	(8,890)	42,463
Statement of changes in shareholders' equity	1,184	-	-	1,184
Balances at December 31, 2003	(265,824)	4,469	18,831	(242,524)

13. Cash and cash equivalents

	2003	2002	2001
Petty cash	1,214	760	687
Cash at bank:			
Related party banks	31,555	10,512	3,529
Nostro accounts at the Central Bank of Russia	50,688	6,124	36,174
International banks	77,124	47,472	32,342
Russian banks	80,437	11,938	7,675
Escrow accounts	56,963	13,417	11,329
Short term deposits:			
Related party banks	82,220	18,719	-
International banks	36,727	18,580	4,474
Russian banks	46,731	61,875	4,837
	463,659	189,397	101,047

14. Banking assets

	2003	2002	2001
Nostro accounts at other financial institutions	1,987	714	2,117
Placements with banks in OECD countries	57,191	15,318	1,525
Placements with Russian banks	1,119	8,099	4,667
Loans to bank customers:			
Related parties	41,612	8,069	3,374
Third parties	19,292	8,197	10,584
Loan loss provisions	(3,642)	(1,339)	(1,530)
	117,559	39,058	20,737

Bank loans given to related parties are provided on an arm's length basis, and are given to finance working capital.

(Amounts expressed in thousands of US dollars)

15. Trade accounts receivable

	2003	2002	2001
Customers	168,190	130,447	101,278
Allowance for doubtful accounts	(2,196)	(6,159)	(5,335)
	165,994	124,288	95,943
Movement in allowance for doubtful accounts:			
Opening balance	(6,159)	(5,335)	(7,791)
Amounts written off during the year	283	-	1,985
Change in provision	3,680	(824)	471
Closing balance	(2,196)	(6,159)	(5,335)

16. Inventories

	2003	2002	2001
Raw materials	138,975	86,593	74,798
Non-production inventories	30,316	28,885	28,136
Work-in-progress	66,644	47,687	56,472
Finished goods	103,343	83,652	87,641
	339,278	246,817	247,047

17. Amounts receivable from related parties

	2003	2002	2001
Advances paid	13,233	8,214	4,047
Trade accounts receivable	37,719	32,494	31,306
Other receivables	181,960	944	168
	232,912	41,652	35,521
Maturity analysis:			
within one year	51,469	41,652	35,521
after more than one year	181,443	-	-
	232,912	41,652	35,521

Income received from related parties was as follows:

	2003	2002	2001
Sales	282,620	231,778	103,345
Banking income	1,774	1,034	1,534
Insurance premiums	6,827	3,613	222

Sales to related parties were conducted on an arm’s length basis.

18. Other current assets

	2003	2002	2001
Advances paid	48,302	55,098	56,111
Other	12,648	9,062	8,491
Prepayments	6,984	5,611	15,177
Insurance and reinsurance receivables	2,388	1,252	171
Other taxes and social security prepaid	468	22,238	24,867
	70,790	93,261	104,817

(Amounts expressed in thousands of US dollars)

19. Lease receivables

	Total Receivable	Interest	Net Receivable
As at December 31, 2003			
Less than one year:			
Related parties	215	(13)	202
Between one and five years:			
Related parties	31	(2)	29
	246	(15)	231
As at December 31, 2002			
Less than one year:			
Related parties	378	(46)	332
Third parties	97	(13)	84
Between one and five years:			
Related parties	165	(5)	160
Third parties	1	-	1
	641	(64)	577
As at December 31, 2001			
Less than one year:			
Related parties	850	(132)	718
Third parties	354	(82)	272
Between one and five years:			
Related parties	428	(41)	387
Third parties	102	(14)	88
	1,734	(269)	1,465

(Amounts expressed in thousands of US dollars)

20. Financial assets

The Group's current financial assets are as follows:

	2003	2002	2001
Held-for-trading - equity securities:			
Quoted equity shares	2,192	2,270	1,942
Available-for-sale securities - held for resale			
Non-quoted equity shares	2,329	-	-
Held to maturity securities:			
Deposits at related banks	21,764	314	-
Deposits at International banks	82,054	7,000	-
Deposits at Russian banks	24,121	9,764	10,336
Originated loans:			
Loans to related parties	9,670	129,445	63,100
Loans to third parties	57,155	78,451	41,326
Held-for-trading securities - promissory notes:			
From related parties	18,225	64,734	6,113
From third parties	38,442	38,133	29,555
Held-for-trading securities - bonds:			
Vneshtorgbank bonds	-	-	294
Russian Government bonds	150	216	203
Corporate bonds	-	-	2,511
	256,102	330,327	155,380

As at the year end, of the short term deposits, US$ 80.8 million (2002: US$ 7.0 million, 2001: US$ 10.0 million) were used as collateral to participate in the selling auction of Dunaferr (Hungary) and 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.

21. Financial assets

The Group's non-current financial assets are as follows:

	Principal activity	Percentage holding	2003	2002	2001
Investment in associated companies:					
OOO Severstal-Emal	Kitchenware manufacture	50.00%	-	5,229	-
OOO Severstal-Mebel	Furniture manufacture	50.00%	-	2,436	-
Others			809	165	-
Available-for-sale securities - held for investment:					
Non-quoted equity shares			50,168	57,392	32,567
Originated loans:					
Loans to related parties			103,453	29,539	77,823
Loans to third parties			-	6,500	18,561
Held-to-maturity securities - promissory notes:					
From related parties			73	477	30,354
From third parties			2,576	13,341	9,190
			157,079	115,079	168,495

(Amounts expressed in thousands of US dollars)

22. Property, plant and equipment

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

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
Valuation or cost:							
December 31, 2002	336,034	1,848,467	55,309	2,239,810	24,850	235,734	2,500,394
Reclassifications	223	(167)	(322)	(266)	266	-	-
Additions	-	-	-	-	-	249,691	249,691
Disposals - external:	(2,755)	(33,638)	(3,514)	(39,907)	(72)	(12,490)	(52,469)
Disposals to associates:	(3,282)	(1,526)	(13)	(4,821)	-	(39)	(4,860)
Transfer to inventories	-	-	-	-	-	(12,671)	(12,671)
Transfers	24,692	115,086	21,645	161,423	3,608	(165,031)	-
December 31, 2003	354,912	1,928,222	73,105	2,356,239	28,652	295,194	2,680,085
Depreciation and impairment:							
December 31, 2002	49,761	345,476	17,429	412,666	6,788	120,693	540,147
Reclassifications	170	(167)	102	105	(105)	-	-
Depreciation expense	26,053	190,224	10,280	226,557	2,302	-	228,859
Disposals - external:	(478)	(18,723)	(1,662)	(20,863)	(46)	(9,861)	(30,770)
Disposals to associates:	(599)	(517)	(2)	(1,118)	-	-	(1,118)
Transfer to inventories	-	-	-	-	-	(8,192)	(8,192)
Transfers	1,172	3,984	21	5,177	1,891	(7,068)	-
Impairment of assets:							
included in operations	-	-	-	-	-	5,413	5,413
included in equity	-	4,936	-	4,936	-	-	4,936
December 31, 2003	76,079	525,213	26,168	627,460	10,830	100,985	739,275
Net book values:							
December 31, 2002	286,273	1,502,991	37,880	1,827,144	18,062	115,041	1,960,247
December 31, 2003	278,833	1,403,009	46,937	1,728,779	17,822	194,209	1,940,810
Net book values based on cost, less depreciation and impairment:							
December 31, 2002	286,084	408,398	37,865	732,347	18,059	115,041	865,447
December 31, 2003	278,591	444,771	46,909	770,271	17,821	194,209	982,301

The Group has no assets held under noncancelable leases, and the following assets, by category, held under capital leases at:

	Buildings and constructions	Plant and machinery	Other productive assets	Total productive assets	Community and infrastructure assets	Construction -in-progress	Total assets
December 31, 2002							
Cost	-	-	1,278	1,278	-		1,278
Accumulated depreciation	-	-	(28)	(28)	-		(28)
Net book value	-	-	1,250	1,250	-		1,250
December 31, 2003							
Cost	-	15,871	-	15,871	-		15,871
Accumulated depreciation	-	(5,318)	-	(5,318)	-		(5,318)
Net book value	-	10,553	-	10,553	-		10,553

Other productive assets include transmission equipment, transport equipment and tools.

The impairment amounts recorded above arose as a result of management's annual review of the Group's compliance with IAS 36 *'Impairment of assets'*. Management determined that the recoverable value of the assets should be their value in use and calculated this by discounting projected cash flows for each cash generating unit at 11.3% per annum.

(Amounts expressed in thousands of US dollars)

23. Intangible assets

The movements in intangible assets are as follows:

	Software	Technical drawings	Goodwill	Total intangible assets
Valuation or cost:				
December 31, 2002	343	-	-	343
Additions	-	4,009	10,548	14,557
December 31, 2003	343	4,009	10,548	14,900
Amortization and impairment:				
December 31, 2002	146	-	-	146
Amortization expense	59	50	-	109
Impairment of assets:				
included in operations	-	2,948	10,548	13,496
December 31, 2003	205	2,998	10,548	13,751
Net book values:				
December 31, 2002	197	-	-	197
December 31, 2003	138	1,011	-	1,149

The impairment amounts recorded above arose as a result of management's annual review of the Group's compliance with IAS 36 'Impairment of assets'. Management determined that the recoverable value of the assets should be their value in use and calculated this by discounting projected cash flows for each cash generating unit at 11.3% per annum.

(Amounts expressed in thousands of US dollars)

24. Bank customer accounts

	2003	2002	2001
Customer accounts:			
Demand deposits	49,514	3,413	4,260
Term deposits	713	3,437	639
Deposits from other financial institutions:			
Vostro accounts	652	7	48
Term deposits	-	-	670
	50,879	6,857	5,617

25. Amounts payable to related parties

	2003	2002	2001
Advances received	1,694	1,020	153
Trade accounts payable	23,638	9,056	1,659
Other accounts payable	10,081	22,772	8,277
Bank demand deposits	472	307	256
Bank term deposits	85	696	-
	35,970	33,851	10,345

Purchases from related parties were as follows:

	2003	2002	2001
Non-capital purchases	596,774	285,940	249,517
Capital purchases	773	7,133	295
Bank expenses	5	80	54
Insurance claims paid	680	299	11

Purchases from related parties were conducted on an arm's length basis.

26. Debt finance

	2003	2002	2001
Related party banks	6,251	-	1,616
International banks	276,827	77,095	58,736
Russian banks	133,716	90,150	101,912
Bonds issued in Russia	101,852	-	-
Promissory notes issued	1,929	8,270	-
Factoring of receivables	1,240	-	-
Accrued interest	1,850	837	961
	523,665	176,352	163,225

	2003	2002	2001
Total debt is denominated in the following currencies:			
Roubles	264,993	35,349	61,137
US dollars	237,602	126,969	89,793
Euro	21,070	14,034	12,295
	523,665	176,352	163,225

	2003	2002	2001
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	180,748	92,556	98,510
Between one and five years	323,169	83,796	64,715
After more than five years	19,748	-	-
	523,665	176,352	163,225

(Amounts expressed in thousands of US dollars)

Debt finance raised from banks is secured by charges over:

- US$ 133.6 million (2002: US$ 323.4 million; 2001: US$ 563.9 million) net book value of plant and equipment;
- US$ 67.2 million (2002: US$ 27.0 million; 2001: US$ 48.5 million) of working capital; and,
- US$ 60.3 million (2002: US$ nil; 2001: US$ nil) of financial assets.

At the balance sheet date the Group had US$ 286.4 million (2002: US$ 16.0 million; 2001: US$ 34.1 million) of unused long term credit lines available to it.

27. Lease liabilities

	Total payable	Interest	Net payable
As at December 31, 2003			
Less than one year	283	(37)	246
Between one and five years	484	(37)	447
	767	(74)	693
As at December 31, 2002			
Less than one year	690	(1)	689
Between one and five years	632	(1)	631
	1,322	(2)	1,320
As at December 31, 2001			
Less than one year	287	(2)	285
Between one and five years	801	(2)	799
	1,088	(4)	1,084

Lease interest is recognized in the statement of operations as it falls due.

28. Other current liabilities

	2003	2002	2001
Advances received	85,738	55,535	32,419
Amounts payable to employees	21,900	15,780	16,314
Insurance and reinsurance payables	13,014	2,849	2,759
Other	3,177	7,349	8,547
Accrued expenses	2,819	3,042	2,828
	126,648	84,555	62,867

29. Other non-current liabilities

	2003	2002	2001
Retirement benefit liability	32,025	38,288	29,387
Insurance reserves:			
Unearned premium reserve	13,232	9,060	4,746
Recognized but not settled reserve	728	6,206	8,672
Incurred but not reported reserve	6,273	3,843	1,054
Life insurance reserve	4	1	156
Preventative reserve	8	8	1,131
Re-insurer’s share of reserves:			
Unearned premium reserve	(9,611)	(5,368)	(1,205)
Recognized but not settled reserve	(667)	(71)	(6,549)
Incurred but not reported reserve	(2,250)	(1,177)	(219)
	39,742	50,790	37,173

(Amounts expressed in thousands of US dollars)

A discount rate of 8.27% (2002: 9.07%; 2001: 13%) 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 17.0% (2002: 10.25%; 2001: 15%).

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

	2003	**2002**	**2001**
Components of the net retirement benefit liability:			
Present value of the defined benefit obligation	61,152	49,516	35,718
Fair value of the plan assets	(29,127)	(11,228)	(6,331)
	32,025	38,288	29,387
Movements in the net retirement benefit liability:			
Net liability at beginning of year	38,288	29,387	41,551
Contributions made during the year	(18,535)	(9,151)	(9,358)
Amounts recognized in the statement of operations:			
Expected return on plan assets	(2,460)	(704)	(568)
Interest cost	4,493	4,607	2,765
Service cost	886	526	785
Actuarial losses/(gains)	5,368	15,143	(3,270)
Foreign exchange loss/(gain)	3,985	(1,520)	(2,518)
Net liability at end of year	32,025	38,288	29,387
Components of the present value of the defined benefit obligation:			
Retirees	35,045	31,697	24,356
Other participants:			
Vested	7,700	4,928	3,745
Non-vested	18,407	12,891	7,617
	61,152	49,516	35,718

The retirement benefit expenses are all recognized in the statement of operations as ‘Selling, general and administration expenses’.

30. Share capital

The Parent 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. All shares carry equal voting and distribution rights. The movements in shares are as follows:

	Shares issued and fully paid	**Treasury shares**	**Total outstanding**
As at December 31, 2000	22,074,192	(1,422)	22,072,770
Sold during the year	-	1,422	1,422
As at December 31, 2001, 2002 and 2003	22,074,192	-	22,074,192

The maximum dividend payable is restricted to the total accumulated retained earnings of the parent company determined according to Russian law. As at the balance sheet date, reserves available for distribution were US$ 1,283.4 million (2002: US$ 934.3 million; 2001: US$ 795.5 million).

31. Commitments and contingencies

a. For litigation, tax and other liabilities

At the balance sheet date, the Group was subject to various claims from customers and suppliers totaling US$ 4.0 million (2002: US$ 0.3 million; 2001: US$ 2.6 million) and the tax authorities totaling US$ nil (2002: US$ 1.0 million; 2001 US$ 6.1 million). Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements.

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to differing and arbitrary interpretations between the various regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. This situation creates substantial tax and regulatory risks, however, management has adopted a conservative approach to interpreting legislation and believes that it has complied with all relevant legislation and adequately provides for tax and other regulatory liabilities.

b. Long term purchase and sales contracts

In the normal course of business group companies enter 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 Group had contractual capital commitments of US$ 208.1 million (2002: US$ 133.7 million; 2001: US$ 22 million).

d. Insurance

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

e. Guarantees

At the balance sheet date the Group had given US$ 153.5 million (2002: US$ 50.3 million; 2001: US$ 34.9 million) of guarantees for bank borrowings by third parties, of which US$ 51.5 million (2002: 16.9 million; 2001: US$ 3.7 million) were in respect of related parties. Of these guarantees, all except one for US$ 67.5 million, mature within one year. The US$ 67.5 million guarantee to a bank matures as the loan is repaid in installments up to 2011.

32. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The steel, metiz and insurance segments of the Group do not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. Within the banking segment of the Group the use of derivative financial instruments during 2003 was limited because of the financial crisis in 1998 - subsequent to this crisis no liquid market has existed for forward or derivative operations denominated in roubles. As at December 31, 2003, 2002 and 2001 the financing segment had no outstanding foreign exchange contracts.

With the exception of equity securities held for investment purposes, it is management's opinion that the fair values of the Group's financial assets and liabilities as at the balance sheet date approximate their book values. Equity securities held for investment purposes have been valued at their recoverable amounts.

Credit risk
The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Within the banking and insurance companies credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligations. The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk. An important element of credit risk policy is to place a significant proportion of funds with highly rated international financial institutions outside the Russian Federation.

Liquidity risk
The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

Foreign exchange rate risk
The Company incurs currency risk on transactions and balances not denominated in the reporting currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Interest rate risk
Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. Interest rate risk is managed by increasing or decreasing positions within limits specified by management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

(Amounts expressed in thousands of US dollars)

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 weighted average effective interest rates at the balance sheet date:

	Rouble	US dollar	Euro	Lat
As at December 31, 2003:				
Cash and cash equivalents	7.69%	3.21%	1.87%	-
Short term deposits and placements	1.58%	0.99%	2.20%	-
Loans to bank customers	10.52%	10.29%	14.25%	-
Held-for-trading securities	9.72%	-	-	-
Held-to-maturity securities	9.00%	-	-	-
Originated loans	9.00%	-	-	-
Available-for-sale-securities	9.00%	-	-	-
Lease receivables	1.30%	-	-	-
Bank customer accounts	5.62%	0.46%	1.86%	-
Promissory notes issued	9.10%	-	-	-
Debt finance	10.71%	4.28%	3.95%	-
Bonds issued in Russia	9.75%	-	-	-
Lease liabilities	-	0.07%	-	10.64%
As at December 31, 2002:				
Cash and cash equivalents	7.76%	1.50%	-	-
Short term deposits and placements	6.24%	1.31%	2.77%	-
Loans to bank customers	19.72%	12.36%	-	-
Held-for-trading securities	17.53%	-	-	-
Held-to-maturity securities	10.00%	-	-	-
Originated loans	10.00%	10.00%	-	-
Available-for-sale-securities	10.00%	-	-	-
Lease receivables	16.45%	-	-	-
Bank customer accounts	5.62%	0.46%	1.86%	-
Promissory notes issued	10.00%	-	-	-
Debt finance	18.00%	7.65%	3.86%	-
Lease liabilities	-	0.07%	-	10.64%
As at December 31, 2001:				
Cash and cash equivalents	37.30%	6.75%	-	-
Short term deposits and placements	37.15%	2.33%	2.00%	-
Loans to bank customers	21.60%	12.30%	-	-
Held-for-trading securities	26.22%	-	-	-
Held-to-maturity securities	11.00%	-	-	-
Originated loans	11.00%	11.00%	-	-
Available-for-sale-securities	11.00%	-	-	-
Lease receivables	13.45%	-	-	-
Bank customer accounts	1.00%	2.00%	-	-
Promissory notes issued	11.00%	-	-	-
Debt finance	4.06%	8.65%	-	-
Lease liabilities	-	0.07%	-	10.64%

(Amounts expressed in thousands of US dollars)

33. Allocation of foreign exchange gains and losses

As a result of using the US dollar as the functional currency the following foreign exchange gains/(losses), that arise on rouble denominated assets and liabilities, were allocated to the statement of operations:

	2003	**2002**	**2001**
Net sales	5,385	(828)	(4,089)
Cost of sales	(685)	3,018	7,901
Selling, general and administration expenses	(1,220)	(4,782)	748
Indirect taxes and contributions	(1,595)	439	63
Net other operating income	12,777	1,360	(127)
Net income from banking operations	(57)	(73)	(174)
Net income/(expense) from securities operations	38,504	(15,688)	(17,004)
Sub-total	53,109	(16,554)	(12,682)
Net financing (expense)/income	(8,994)	(2,909)	155
Income tax expense	(133)	(113)	(33)
	43,982	(19,576)	(12,560)

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

	2003	**2002**	**2001**
Cash and cash equivalents	12,921	485	(529)
Financial assets - debt securities	38,504	(15,688)	(17,004)
Trade accounts receivable	5,385	(828)	(4,089)
VAT recoverable	4,241	(3,397)	(1,740)
Other current assets	(279)	(3,599)	(3,265)
Lease receivables	(57)	(73)	(174)
Trade accounts payable	(685)	3,018	7,901
Other taxes and social security payable	(1,595)	439	63
Deferred income	(144)	875	402
Dividends payable	(207)	210	1,233
Other current liabilities	(990)	484	2,002
Retirement benefit liabilities	(3,985)	1,520	2,518
Sub-total	53,109	(16,554)	(12,682)
Financial assets - bank deposits	3,678	(2,947)	(2,460)
Income tax payable/(recoverable)	(133)	(113)	(33)
Debt finance	(12,673)	38	2,615
Finance leases payable	1	-	-
	43,982	(19,576)	(12,560)

(Amounts expressed in thousands of US dollars)

34. Subsidiary companies

The following is a list of significant subsidiaries.

Company	Location	Activity
Steel segment:		
ZAO Severgal	Russia	Hot dip galvanized steels
Severstal Export GmbH	Switzerland	Steel sales
AS Severstallat	Latvia	Steel sales
OOO SSM-Tyazhmash	Russia	Steel producing equipment repairs
OAO Domnaremont	Russia	Steel producing equipment repairs
OAO Metallurgremont	Russia	Steel producing equipment repairs
OOO Uralmash MO	Russia	Engineering and design
Metiz segment:		
OAO Cherepovets Steel Rolling Mill	Russia	Steel machining
OOO ChSPZ MKR (associate)	Russia	Fastenings & springs manufacturer
OOO Policher (associate)	Russia	Application of polymer coatings
Insurance segment:		
OAO Insurance Company Sheksna	Russia	Insurance
OAO Sheksna M	Russia	Medical insurance
Star Insurance Ltd	UK	Insurance
Financing segment:		
OAO Metallurgical Commercial Bank	Russia	Banking
OOO Promleasing	Russia	Leasing

In addition, a further 89 (2002: 69; 2001: 61) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

During 2003 and 2002, minority interests were bought out by the Group as follows:

Company	Share of net assets acquired	Amount paid	Negative goodwill
Year ended December 31, 2003:			
OAO Cherepovets Steel rolling Mill	10,238	6,475	(3,763)
Year ended December 31, 2002:			
OAO NIIEIR	1,360	792	(568)
OAO Cherepovets Steel rolling Mill	14,988	8,893	(6,095)
AS Severstallat	158	46	(112)
		9,731	(6,775)

In October 2003, the Group acquired 100% of the share capital of OOO Uralmash MO for US$ 15 million.

In February 2002, Severstal ceded control of its hotel complex, OAO Pansionat Sheksna, in Sochi when it gifted this company, as a capital contribution, to the City Tourism Development Agency, a not for profit organization. As a result the hotel complex has been deconsolidated and the investment in the Agency has been fully provided against.

(Amounts expressed in thousands of US dollars)

These acquisitions and disposals had the following effect on the Group's assets and liabilities:

	2003 Acquisition	**2002 Disposal**
Cash and cash equivalents	1,268	276
Trade accounts receivable	770	176
VAT recoverable	1,244	23
Inventories	1,151	239
Other current assets	3,050	139
Financial assets	2,742	-
Property, plant and equipment	77	-
Intangible assets	4,009	-
Trade accounts payable	(354)	(11)
Other taxes and social security payable	(495)	(26)
Other current liabilities	(8,723)	(44)
Debt finance	(245)	-
Net identifiable assets and liabilities	4,494	772
Goodwill on acquisition	10,548	-
Consideration satisfied in cash	15,042	n/a
Net cash outflow	13,774	276

In December 2002, the Group acquired the 56.44% controlling interest in OAO Domnaremont and the 73.44% controlling interest in OAO Metallurgremont, from a company under common shareholder control, for US$ 4.0 million as determined by an independent valuer. The net assets of these companies, in accordance with IFRS, on the date of acquisition were US$ 2.0 million and US$ 1.0 million respectively.

In December 2003, the Group acquired the 100% controlling interest in the share capital of ZAO Firma Stoik, from a company under common shareholder control, for US$ 9.1 million, as determined by an independent valuer. The net assets of ZAO Firma Stoik, in accordance with IFRS, on the date of acquisition were US$ 4.1 million. As a result of this acquisition the comparative financial information in the general purpose consolidated financial statements, from which these special purpose consolidated financial statements have been extracted, has been restated.

35. Subsequent events

In January 2004, as part of a project to create a wide pipe manufacturing facility (with an approximate total expected cost of Euro 150 million), the Group signed a construction contract with SMS Meer for Euro 72.7 million.

On January 14, 2004 the Chinese Government announced the imposition of duties on steel imported from Russia. The tariff applicable to steel from Severstal was determined at 9%. This tariff is to be applied retroactively from September 2003.

Through its wholly owned subsidiary, Severstal North America Inc, Severstal purchased, on January 30, 2004, certain assets of Rouge Steel, in Dearborn, Michigan, USA for US$ 260 million in cash and the assumption of US$ 85 million of liabilities. Severstal North America Inc did not assume any pension liabilities, and agreed to start new pension and post employment medical benefits plans for the employees.

On June 9, 2004, Severstal signed a loan repayment guarantee in favour of the European Bank for Reconstruction and Development in respect of a credit facility of US$ 60 million to OAO Karelsky Okatysh, a related party.

During July 2004 the Group acquired an additional 10.12% of the ordinary share capital of OAO Orlovsky Steel Rolling Mill (‘OSPAZ’) for US$ 4.7 million, thereby increasing the Group’s total shareholding in OSPAZ to 29.12%.

On May 21, 2004, Severstal’s shareholders approved a final dividend of Rbs 28.00 per share in respect of 2003 and an interim dividend of Rbs 42.00 per share for the first quarter of 2004. On August 5, 2004 the Board of Directors recommended the payment of an interim dividend for the second quarter of 2004 of Rbs 100.00 per share.

On May 21, 2004, Severstal’s shareholders approved a split of Severstal’s shares at a ratio of 1:25. The reported share capital will not change in monetary terms, but it will consist of 551,854,800 ordinary shares with the nominal value of Rbs 0.01 each. The actual split will take place after approval by the Russian stock market regulator.

Significant debt finance raised by the Group after the balance sheet date includes:

- on January 27, 2004, Severstal received a loan of US$ 50 million from Societe Generale pursuant to a facility agreement dated December 24, 2003;
- on February 17, 2004, Severstal increased its loan facility with ZAO Raiffeisenbank Austria by US$ 21 million to a total of US$ 50 million;
- between the balance sheet date and the date of these financial statements, ZAO Severgal drew down an additional US$ 55 million from its US$ 90 million loan facility with European Bank for Reconstruction and Development. The remaining US$ 25 million available under this credit facility is expected to be received by the end of 2004;
- on February 19, 2004, Citigroup Global Markets Deutschland AG & Co. KGaA issued 8.625% US$ 325.0 million Loan Participation Notes due August 24, 2009, to finance a loan to Severstal. Interest on the loan is payable semi-annually in arrear in equal installments on February 24 and August 24 in each year, commencing August 24, 2004;
- on March 24, 2004, Severstal signed a credit facility with Sberbank for Rbs 2,900 million (approximately US$ 101.7 million), of which Rbs 1,500 million had been drawn down as at the date of these financial statements;
- on April 1, 2004 OAO Cherepovets Steel Rolling Mill entered into a loan agreement with the International Moscow Bank for Euro 1.88 million, which had been fully drawn down as at the date of these financial statements;
- on April 8, 2004 Severstal North America Inc entered into a loan agreement with Citicorp USA for an aggregate amount of US$ 275 million, of which US$ 31.5 million had been drawn down as at the date of these financial statements; and,
- on April 14, 2004, Citigroup Global Markets Deutschland AG & Co. KGaA issued 9.25% US$ 375.0 million Loan Participation Notes due April 19, 2014, to finance a loan to Severstal. Interest on the loan is payable semi-annually in arrear in equal installments on April 19 and October 19 in each year, commencing October 19, 2004.

(Amounts expressed in thousands of US dollars)

36. Segmental information

	Steel segment	Metiz segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Segmental balance sheets as at December 31, 2003						
Assets						
Current assets:						
Cash and cash equivalents	515,241	4,057	51,794	32,079	(139,512)	463,659
Central bank reserves	-	-	13,247	-	-	13,247
Banking assets	-	-	124,903	-	(7,344)	117,559
Trade accounts receivable	148,120	17,407	467	-	-	165,994
Inventories	303,404	35,773	23	78	-	339,278
Amounts receivable from related parties	56,080	1,812	211	3,717	(10,351)	51,469
VAT recoverable	75,239	7,572	353	-	-	83,164
Income tax recoverable	1,331	-	-	885	-	2,216
Other current assets	61,394	5,070	299	4,027	-	70,790
Lease receivables	-	-	274	-	(72)	202
Financial assets	200,924	5,145	35,646	36,295	(21,908)	256,102
Total current assets	1,361,733	76,836	227,217	77,081	(179,187)	1,563,680
Non-current assets:						
Amounts receivable from related parties	181,443	-	-	-	-	181,443
Lease receivables	-	-	29	-	-	29
Financial assets	145,448	14,430	2,245	1,702	(6,746)	157,079
Property, plant and equipment	1,876,137	59,962	2,093	2,618	-	1,940,810
Intangible assets	1,010	-	139	-	-	1,149
Total non-current assets	2,204,038	74,392	4,506	4,320	(6,746)	2,280,510
Total assets	3,565,771	151,228	231,723	81,401	(185,933)	3,844,190
Liabilities and shareholders' equity						
Current liabilities:						
Trade accounts payable	102,960	3,855	807	-	-	107,622
Bank customer accounts	-	-	50,879	-	-	50,879
Amounts payable to related parties	34,633	9,204	150,070	4	(157,941)	35,970
Income taxes payable	5,395	459	92	-	-	5,946
Other taxes and social security payable	16,084	730	294	32	-	17,140
Deferred income	2,101	-	-	-	-	2,101
Debt finance	180,732	7,607	173	6,066	(13,830)	180,748
Lease liabilities	318	-	-	-	(72)	246
Dividends payable	39,481	-	-	-	-	39,481
Other current liabilities	109,266	3,940	165	13,277	-	126,648
Total current liabilities	490,970	25,795	202,480	19,379	(171,843)	566,781
Non-current liabilities:						
Debt finance	342,917	-	-	-	-	342,917
Lease liabilities	447	-	-	-	-	447
Deferred tax liabilities	228,627	5,856	(365)	8,406	-	242,524
Other non-current liabilities	24,437	7,588	-	7,717	-	39,742
Total non-current liabilities	596,428	13,444	(365)	16,123	-	625,630
Minority interest	25,196	-	-	-	29,524	54,720
Shareholders' equity:						
Share capital	3,311,129	1,655	34,815	8,952	(45,422)	3,311,129
Share premium	-	23,222	-	-	(23,222)	-
Revaluation reserve	728,467	-	-	-	-	728,467
Accumulated deficit	(1,586,419)	87,112	(5,207)	36,947	25,030	(1,442,537)
Total shareholders' equity	2,453,177	111,989	29,608	45,899	(43,614)	2,597,059
Total liabilities and shareholders' equity	3,565,771	151,228	231,723	81,401	(185,933)	3,844,190

(Amounts expressed in thousands of US dollars)

36. Segmental information

	Steel segment	Metiz segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Segmental balance sheets as at December 31, 2002						
Assets						
Current assets:						
Cash and cash equivalents	183,635	2,468	7,095	24,430	(28,231)	189,397
Central bank reserves	-	-	2,520	-	-	2,520
Banking assets	-	-	39,179	-	(121)	39,058
Trade accounts receivable	115,237	8,711	340	-	-	124,288
Inventories	230,772	15,967	52	26	-	246,817
Amounts receivable from related parties	43,000	1,130	1,024	4,333	(7,835)	41,652
VAT recoverable	44,463	3,749	320	-	-	48,532
Income tax recoverable	1,090	-	-	416	-	1,506
Other current assets	88,363	3,123	272	1,503	-	93,261
Lease receivables	-	-	821	-	(405)	416
Financial assets	300,566	-	10,860	19,058	(157)	330,327
Total current assets	1,007,126	35,148	62,483	49,766	(36,749)	1,117,774
Non-current assets:						
Lease receivables	-	-	237	-	(76)	161
Financial assets	118,731	6,614	1,775	2,055	(14,096)	115,079
Property, plant and equipment	1,886,940	69,323	1,702	2,282	-	1,960,247
Intangible assets	-	-	197	-	-	197
Total non-current assets	2,005,671	75,937	3,911	4,337	(14,172)	2,075,684
Total assets	3,012,797	111,085	66,394	54,103	(50,921)	3,193,458
Liabilities and shareholders' equity						
Current liabilities:						
Trade accounts payable	117,352	274	319	-	-	117,945
Bank customer accounts	-	-	6,857	-	-	6,857
Amounts payable to related parties	33,902	4,115	31,868	32	(36,066)	33,851
Income taxes payable	7,736	520	180	65	-	8,501
Other taxes and social security payable	19,391	2,432	286	339	-	22,448
Deferred income	3,665	-	-	-	-	3,665
Debt finance	87,309	5,520	-	5	(278)	92,556
Lease liabilities	1,043	51	-	-	(405)	689
Dividends payable	564	-	-	-	-	564
Other current liabilities	79,123	2,244	198	2,990	-	84,555
Total current liabilities	350,085	15,156	39,708	3,431	(36,749)	371,631
Non-current liabilities:						
Debt finance	83,676	-	120	-	-	83,796
Lease liabilities	589	118	-	-	(76)	631
Deferred tax liabilities	271,699	7,413	337	6,722	-	286,171
Other non-current liabilities	31,495	6,793	-	12,502	-	50,790
Total non-current liabilities	387,459	14,324	457	19,224	(76)	421,388
Minority interest	3,808	-	-	-	31,027	34,835
Shareholders' equity:						
Share capital	3,311,129	1,605	34,815	8,952	(45,372)	3,311,129
Additional capital	136	-	-	-	-	136
Treasury shares	-	-	(28)	-	28	-
Revaluation reserve	832,048	-	-	-	-	832,048
Accumulated deficit	(1,871,868)	80,000	(8,558)	22,496	221	(1,777,709)
Total shareholders' equity	2,271,445	81,605	26,229	31,448	(45,123)	2,365,604
Total liabilities and shareholders' equity	3,012,797	111,085	66,394	54,103	(50,921)	3,193,458

(Amounts expressed in thousands of US dollars)

36. Segmental information

	Steel segment	Metiz segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Segmental balance sheets as at December 31, 2001						
Assets						
Current assets:						
Cash and cash equivalents	80,391	1,495	36,776	20,903	(38,518)	101,047
Central bank reserves	-	-	4,897	-	-	4,897
Banking assets	-	-	21,849	-	(1,112)	20,737
Trade accounts receivable	89,854	6,076	13	-	-	95,943
Inventories	231,313	15,643	83	8	-	247,047
Amounts receivable from related parties	41,244	706	1,466	2,613	(10,508)	35,521
VAT recoverable	31,829	4,089	374	-	-	36,292
Income tax recoverable	2,465	993	676	2	-	4,136
Other current assets	100,195	2,702	1,032	888	-	104,817
Lease receivables	-	-	1,520	-	(530)	990
Financial assets	141,126	-	5,158	18,158	(9,062)	155,380
Total current assets	718,417	31,704	73,844	42,572	(59,730)	806,807
Non-current assets:						
Lease receivables	-	-	882	-	(407)	475
Financial assets	170,956	5,696	-	-	(8,157)	168,495
Property, plant and equipment	1,949,168	72,543	2,700	2,150	-	2,026,561
Intangible assets	-	-	318	-	-	318
Total non-current assets	2,120,124	78,239	3,900	2,150	(8,564)	2,195,849
Total assets	2,838,541	109,943	77,744	44,722	(68,294)	3,002,656
Liabilities and shareholders' equity						
Current liabilities:						
Trade accounts payable	90,519	1,480	1,541	-	-	93,540
Bank customer accounts	-	-	5,617	-	-	5,617
Amounts payable to related parties	13,050	3,702	42,461	158	(49,026)	10,345
Income taxes payable	565	-	-	14	-	579
Other taxes and social security payable	26,311	1,693	149	16	-	28,169
Deferred income	5,906	28	-	-	-	5,934
Debt finance	90,485	11,414	846	-	(4,235)	98,510
Lease liabilities	765	50	-	-	(530)	285
Dividends payable	19,348	-	4	-	-	19,352
Other current liabilities	55,942	3,512	207	3,206	-	62,867
Total current liabilities	302,891	21,879	50,825	3,394	(53,791)	325,198
Non-current liabilities:						
Debt finance	64,649	-	66	-	-	64,715
Lease liabilities	1,039	167	-	-	(407)	799
Deferred tax liabilities	324,218	5,059	1,329	6,943	-	337,549
Other non-current liabilities	25,479	3,908	-	7,786	-	37,173
Total non-current liabilities	415,385	9,134	1,395	14,729	(407)	440,236
Minority interest	2,984	-	-	-	44,972	47,956
Shareholders' equity:						
Share capital	3,311,129	1,605	34,815	8,952	(45,372)	3,311,129
Additional capital	136	-	-	-	-	136
Revaluation reserve	949,245	-	-	-	-	949,245
Accumulated deficit	(2,143,229)	77,325	(9,291)	17,647	(13,696)	(2,071,244)
Total shareholders' equity	2,117,281	78,930	25,524	26,599	(59,068)	2,189,266
Total liabilities and shareholders' equity	2,838,541	109,943	77,744	44,722	(68,294)	3,002,656

(Amounts expressed in thousands of US dollars)

36. Segmental information

	Steel segment	Metiz segment	Financing segment	Insurance segment	Inter segment transactions	Consolidated
Segmental statements of operations, year ended December 31, 2003						
Sales						
Sales - external	2,667,991	251,204	-	-	-	2,919,195
Sales - to related parties	423,786	23,109	-	-	(164,275)	282,620
	3,091,777	274,313	-	-	(164,275)	3,201,815
Cost of sales	(1,840,869)	(237,198)	-	-	164,275	(1,913,792)
Gross profit	1,250,908	37,115	-	-	-	1,288,023
Indirect taxes and contributions	(16,053)	(1,860)	(1,115)	(56)	-	(19,084)
Selling, general and administration expenses	(195,073)	(12,313)	(813)	(3,657)	49,296	(162,560)
Distribution expenses	(303,797)	(10,787)	-	-	-	(314,584)
Net other operating expenses	(6,705)	(3)	2,060	819	-	(3,829)
Net expenses with insurance operations	-	-	-	12,502	(21,697)	(9,195)
Net income from banking operations	-	-	641	-	1,258	1,899
Net expenses from securities operations	20,665	1,369	2,902	-	-	24,936
Profit from operations	749,945	13,521	3,675	9,608	28,857	805,606
Non-operating expenses	(17,658)	(2,581)	15	239	6	(19,979)
Impairment of property, plant and equipment	(5,213)	(200)	-	-	-	(5,413)
Impairment of goodwill	(10,548)	-	-	-	-	(10,548)
Write off of negative goodwill	3,763	-	-	-	-	3,763
Share of associates income	70	(451)	-	-	-	(381)
Profit before financing and taxation	720,359	10,289	3,690	9,847	28,863	773,048
Net financing (expense)/income	(20,447)	183	(8)	8,540	(1,258)	(12,990)
Profit before income tax	699,912	10,472	3,682	18,387	27,605	760,058
Income tax expense	(154,731)	(3,360)	(331)	(3,936)	-	(162,358)
Profit for the year	545,181	7,112	3,351	14,451	27,605	597,700
Profit attributable to minorities	(4,333)	-	-	-	(2,796)	(7,129)
Profit attributable to shareholders	540,848	7,112	3,351	14,451	24,809	590,571

(Amounts expressed in thousands of US dollars)

36. Segmental information

Segmental statements of operations, year ended December 31, 2002

	Steel segment	Metiz segment	Financing segment	Insurance segment	Inter segment transactions	Consolidated
Sales						
Sales - external	1,878,180	163,193	-	-	-	2,041,373
Sales - to related parties	316,181	10,381	-	-	(94,784)	231,778
	2,194,361	173,574	-	-	(94,784)	2,273,151
Cost of sales	(1,463,082)	(141,069)	-	-	94,784	(1,509,367)
Gross profit	731,279	32,505	-	-	-	763,784
Indirect taxes and contributions	(34,612)	(2,591)	(317)	(53)	-	(37,573)
Selling, general and administration expenses	(130,751)	(12,939)	(3,594)	(2,263)	35,389	(114,158)
Distribution expenses	(271,369)	(6,725)	-	-	-	(278,094)
Net other operating expenses	(27,416)	215	667	598	-	(25,936)
Net expenses with insurance operations	-	-	-	4,241	(19,995)	(15,754)
Net income from banking operations	-	-	3,314	-	(253)	3,061
Net expenses from securities operations	(8,671)	154	1,392	-	-	(7,125)
Profit from operations	258,460	10,619	1,462	2,523	15,141	288,205
Non-operating expenses	(20,641)	(1,959)	-	907	-	(21,693)
Impairment of property, plant and equipment	(9,845)	(190)	-	-	-	(10,035)
Write off of negative goodwill	6,775	-	-	-	-	6,775
Share of associates income	(100)	153	-	-	-	53
Profit before financing and taxation	234,649	8,623	1,462	3,430	15,141	263,305
Net financing income/(expense)	(19,044)	(1,215)	(99)	1,722	253	(18,383)
Profit before income tax	215,605	7,408	1,363	5,152	15,394	244,922
Income tax expense	(57,623)	(4,733)	(630)	(303)	-	(63,289)
Profit for the year	157,982	2,675	733	4,849	15,394	181,633
Profit attributable to minorities	185	-	-	-	(1,477)	(1,292)
Profit attributable to shareholders	158,167	2,675	733	4,849	13,917	180,341

(Amounts expressed in thousands of US dollars)

36. Segmental information

	Steel segment	Metiz segment	Financing segment	Insurance segment	Inter segment transactions	Consolidated
Segmental statements of operations, year ended December 31, 2001						
Sales						
Sales - external	1,757,634	150,663	-	-	-	1,908,297
Sales - to related parties	186,289	17,917	-	-	(100,861)	103,345
	1,943,923	168,580	-	-	(100,861)	2,011,642
Cost of sales	(1,445,998)	(138,959)	-	-	100,861	(1,484,096)
Gross profit	497,925	29,621	-	-	-	527,546
Indirect taxes and contributions	(33,254)	(2,725)	(723)	(122)	-	(36,824)
Selling, general and administration expenses	(91,281)	(10,912)	(6,800)	(1,992)	33,245	(77,740)
Distribution expenses	(219,097)	(4,773)	-	-	-	(223,870)
Net other operating expenses	(17,677)	(987)	4,215	745	-	(13,704)
Net expenses with insurance operations	-	-	-	22,767	(31,536)	(8,769)
Net income from banking operations	-	-	5,906	-	(329)	5,577
Net expenses from securities operations	(64,207)	684	1,771	500	-	(61,252)
Profit from operations	72,409	10,908	4,369	21,898	1,380	110,964
Non-operating expenses	(64,503)	(2,068)	-	-	-	(66,571)
Impairment of property, plant and equipment	(1,824)	(282)	-	-	-	(2,106)
Profit before financing and taxation	6,082	8,558	4,369	21,898	1,380	42,287
Net financing income/(expense)	898	(871)	(191)	1,460	329	1,625
Profit before income tax	6,980	7,687	4,178	23,358	1,709	43,912
Income tax (expense)/benefit	(31,253)	(397)	(1,490)	(5,189)	-	(38,329)
(Loss)/profit for the year	(24,273)	7,290	2,688	18,169	1,709	5,583
Profit attributable to minorities	849	-	-	-	(5,764)	(4,915)
(Loss)/profit attributable to shareholders	(23,424)	7,290	2,688	18,169	(4,055)	668