SEVERSTAL

Consolidated financial statements
for the year ended December 31, 2004

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Contents

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Independent Auditors' Report

The Board of Directors
OAO Severstal

We have audited the accompanying consolidated balance sheet of Severstal and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited.

KPMG Limited
17 June 2005

Severstal

Consolidated balance sheet
December 31, 2004
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2004	2003	2002
Assets				
Current assets:				
Cash and cash equivalents	13	924,371	463,702	189,397
Reserves at Central Bank of Russia		4,695	13,247	2,520
Banking assets	14	217,286	117,559	39,058
Trade accounts receivable	15	456,132	167,059	124,288
Inventories	16	1,024,304	344,713	246,817
Amounts receivable from related parties	17	287,213	52,280	41,652
VAT recoverable		173,372	83,635	48,532
Income tax recoverable		43,945	2,216	1,506
Other current assets	18	118,315	71,156	93,261
Lease receivables	19	-	202	416
Financial assets	20	662,544	250,985	330,327
Total current assets		3,912,177	1,566,754	1,117,774
Non-current assets:				
Amounts receivable from related parties	17	-	181,443	-
Lease receivables	19	-	29	161
Financial assets	21	90,494	126,620	107,249
Investment in associates	22	85,770	809	7,830
Property, plant and equipment	23	2,488,771	1,995,581	1,958,244
Intangible assets	24	6,386	2,567	197
Total non-current assets		2,671,421	2,307,049	2,073,681
Total assets		6,583,598	3,873,803	3,191,455
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		311,971	108,759	117,945
Bank customer accounts	25	44,695	50,879	6,857
Amounts payable to related parties	26	112,093	42,540	33,851
Income taxes payable		30,465	5,967	8,501
Other taxes and social security payable		32,520	17,632	22,448
Deferred income		1,956	2,101	3,665
Debt finance	27	227,821	186,088	92,556
Lease liabilities	28	351	246	689
Dividends payable		18,440	39,481	564
Other current liabilities	29	171,504	127,697	84,555
Total current liabilities		951,816	581,390	371,631
Non-current liabilities:				
Debt finance	27	1,325,324	342,917	83,796
Lease liabilities	28	450	447	631
Deferred tax liabilities	12	277,831	247,643	285,447
Other non-current liabilities	30	104,700	39,544	49,540
Total non-current liabilities		1,708,305	630,551	419,414
Minority interest		64,026	60,459	34,514
Shareholders' equity:				
Share capital	31	3,311,129	3,311,129	3,311,129
Additional paid in capital		-	-	136
Revaluation reserve		670,274	728,467	832,048
Foreign exchange differences		128,048	-	-
Accumulated deficit		(250,000)	(1,438,193)	(1,777,417)
Total shareholders' equity		3,859,451	2,601,403	2,365,896
Total liabilities and shareholders' equity		6,583,598	3,873,803	3,191,455

These financial statements were approved by the Board of Directors on June 17, 2005.

The accompanying accounting policies and notes on pages 6 to 46
form an integral part of these consolidated financial statements.

Severstal

Consolidated income statement
Year ended December 31, 2004
(Amounts expressed in thousands of US dollars, except shares and earnings per share)

	Note	Year ended December 31, 2004	2003	2002
Sales				
Sales - external		6,268,795	2,921,232	2,046,502
Sales - to related parties	17	379,134	282,652	228,678
	4	6,647,929	3,203,884	2,275,180
Cost of sales		(4,022,555)	(1,908,885)	(1,506,011)
Gross profit		2,625,374	1,294,999	769,169
Indirect taxes and contributions		(24,963)	(19,343)	(37,660)
Selling, general and administration expenses		(246,177)	(163,394)	(105,858)
Distribution expenses		(434,811)	(314,954)	(279,362)
Net other operating expenses	5	(57,557)	(3,819)	(25,784)
Net expenses from insurance operations	7	(18,237)	(14,297)	(18,356)
Net income from bank lending operations	8	4,263	1,899	2,615
Net income/(expenses) from securities operations	9	25,830	30,727	(12,225)
Profit from operations		1,873,722	811,818	292,539
Net non-operating expenses	10	(3,445)	(20,846)	(22,038)
Impairment of property, plant and equipment	23	(16,066)	(5,413)	(11,046)
Impairment of goodwill	24	-	(10,548)	-
Negative goodwill	35	61,274	5,099	6,775
Share of associates profits/(losses)		7,158	(280)	(5,166)
Profit before financing and taxation		1,922,643	779,830	261,064
Net financing expense	11	(32,504)	(13,345)	(18,079)
Profit before income tax		1,890,139	766,485	242,985
Income tax expense	12	(481,622)	(162,399)	(61,782)
Profit for the year		1,408,517	604,086	181,203
Profit attributable to minorities		(7,338)	(7,571)	(409)
Profit attributable to shareholders		1,401,179	596,515	180,794
Weighted average number of shares outstanding during the year (units after split)		551,854,800	551,854,800	551,854,800
Basic and diluted earnings per share (US dollars)		2.54	1.08	0.33

The accompanying accounting policies and notes on pages 6 to 46 form an integral part of these consolidated financial statements.

Severstal

Consolidated statement of cash flows
Year ended December 31, 2004
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2004	**2003**	**2002**
Operating activities:			
Profit before financing and taxation	1,922,643	779,830	261,064
Adjustments to reconcile profit to cash provided by operating activities:			
Depreciation of property, plant and equipment	249,769	226,496	213,155
Amortization of intangible assets	269	109	66
Asset impairment	16,066	18,909	11,046
Negative goodwill written off	(61,274)	(5,099)	(6,775)
Foreign exchange loss/(gain)	50,664	(53,973)	16,593
Loss on disposal of property, plant and equipment	26,102	20,345	33,407
Loss on disposal of intangible assets	-	-	71
(Gain)/loss on disposal of subsidiaries/associates	(20,475)	736	772
(Gain)/loss on disposal of financial assets	(21,479)	(220)	21,342
Adjustment of financial assets to fair value	(1,349)	9,651	(3,646)
Share of associates income	(7,158)	280	5,166
Bank loan loss provisions	(238)	2,303	(191)
Provision for doubtful accounts receivable	(1,568)	(3,862)	918
Provision against inventories	17,549	8,596	(10,073)
Changes in operating assets and liabilities:			
Reserves at Central Bank of Russia	9,366	(10,727)	2,377
Banking assets	(90,951)	(80,804)	(18,130)
Trade accounts receivable	(233,228)	(21,037)	(28,180)
Amounts receivable from related parties	32,057	(192,071)	(11,446)
VAT recoverable	(93,838)	(28,829)	(15,438)
Inventories	(510,014)	(93,880)	9,573
Lease receivables	254	289	(193)
Other current assets	(34,397)	4,321	4,787
Short term bank deposits	(423,077)	(107,183)	(9,680)
Trade accounts payable	172,895	(12,206)	27,298
Bank customer accounts	(9,312)	44,022	1,240
Amounts payable to related parties	117,700	8,689	23,706
Other taxes and social security payable	13,015	14,721	(2,711)
Deferred income	(273)	(1,708)	(1,394)
Other current liabilities	32,587	31,378	24,610
Other non-current liabilities	42,128	(13,971)	13,850
Cash generated from operations	1,194,433	545,105	563,184
Interest received (excluding banking operations)	39,961	21,140	9,286
Interest paid (excluding banking operations)	(81,634)	(24,118)	(25,010)
Income tax paid	(515,828)	(208,123)	(104,877)
Net cash provided from operating activities	636,932	334,004	442,583
Investing activities:			
Additions to property, plant and equipment	(610,890)	(247,915)	(201,974)
Additions to intangible assets	(4,878)	-	(16)
Additions to financial assets	(301,042)	(45,167)	(457,669)
Buy out of minority interests	(377)	(6,475)	(9,731)
Net cash outflow on acquisition of subsidiaries	(254,927)	(52,353)	-
Net cash outflow on disposals of subsidiaries	(22,964)	-	(276)
Net cash outflow as a result of spin off	-	-	(573)
Acquisition from common shareholder	-	(9,095)	(4,003)
Proceeds from disposal of property, plant and equipment	1,745	5,112	11,556
Proceeds from disposal of financial assets	357,525	254,214	306,625
Cash used for investing activities	(835,808)	(101,679)	(356,061)
Financing activities:			
Proceeds from debt finance	1,453,059	606,488	359,919
Repayment of debt finance	(463,736)	(290,356)	(343,500)
Proceeds from lease finance	-	-	404
Repayment of lease finance	(624)	(626)	(170)
Dividends paid	(337,255)	(309,451)	(18,578)
Minority capital contributions	4,024	22,994	2,093
Dividends paid to minorities	(58)	-	-
Dividends received	11,520	-	-
Cash provided from financing activities	666,930	29,049	168
Effect of exchange rates on cash and cash equivalents	(7,385)	12,931	478
Net increase in cash and cash equivalents	460,669	274,305	87,168
Cash and cash equivalents at beginning of year	463,702	189,397	102,229
Cash and cash equivalents at end of year	924,371	463,702	189,397

The accompanying accounting policies and notes on pages 6 to 46 form an integral part of these consolidated financial statements.

Severstal

Consolidated statement of changes in shareholders' equity
Year ended December 31, 2004
(Amounts expressed in thousands of US dollars)

	Share capital	Additional capital	Revaluation reserve	Foreign exchange reserve	Accumulated deficit	Total
Balances at December 31, 2001	3,311,129	136	949,245	-	(2,030,032)	2,230,478
Dividends:						
spin off (see note 35)	-	-	-	-	(41,373)	(41,373)
Realization of revaluation reserve:						
Disposals	-	-	(26,160)	-	26,160	-
Depreciation	-	-	(128,048)	-	128,048	-
Deferred tax on realization	-	-	37,011	-	(37,011)	-
Acquisition from common shareholder	-	-	-	-	(4,003)	(4,003)
Profit attributable to shareholders	-	-	-	-	180,794	180,794
Balances at December 31, 2002	3,311,129	136	832,048	-	(1,777,417)	2,365,896
Dividends:						
cash dividend	-	-	-	-	(348,161)	(348,161)
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 common shareholder	-	(136)	-	-	(8,959)	(9,095)
Profit attributable to shareholders	-	-	-	-	596,515	596,515
Balances at December 31, 2003	3,311,129	-	728,467	-	(1,438,193)	2,601,403
Dividends:						
cash dividend	-	-	-	-	(316,214)	(316,214)
Realization of revaluation reserve:						
Disposals	-	-	(12,843)	-	12,843	-
Business de-combinations	-	-	(541)	-	541	-
Depreciation	-	-	(118,085)	-	118,085	-
Deferred tax on realization	-	-	31,551	-	(31,551)	-
Foreign exchange difference						
Origination	-	-	41,725	131,358	-	173,083
Business de-combinations	-	-	-	(3,310)	3,310	-
Profit attributable to shareholders	-	-	-	-	1,401,179	1,401,179
Balances at December 31, 2004	3,311,129	-	670,274	128,048	(250,000)	3,859,451

The accompanying accounting policies and notes on pages 6 to 46
form an integral part of these consolidated financial statements.

Severstal

Notes to the consolidated financial statements
(Tabular amounts expressed in thousands of US dollars)

1. Operations

The consolidated financial statements of OAO Severstal ('the Group') comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company'), and its subsidiaries as listed in note 35.

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 ('OAO') and privatized. Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia. Severstal'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% (2003: 82.75%; 2002: 82.75%) of Severstal's share capital.

The Group comprises the following segments:

- *Steel segment* – this segment operates full cycle integrated iron and steel mills in Russia and the USA and has supporting companies for maintenance and the sale of products in the Russian and international markets. The maintenance companies within this segment were sold to related parties in December 2004.
- *Metalware segment* – this segment comprises three locations in Russia containing 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 international markets.
- *Mining segment* – this segment operates various mines that supply the bulk of the iron ore needs of the Steel segment. The principal mines being: OAO Olkon, that produces iron ore concentrate; and, OAO Karelsky Okatysh that produces iron ore pellets. This segment was spun-off to shareholders in September 2002.
- *Financing segment* – this segment operates a retail bank and a leasing company. Part of this segment was sold to related parties in December 2004.
- *Insurance segment* – this segment operates a general insurance company; a specialist medical insurance company; and a 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 within Russia and financially. Part of this segment was sold to related parties in December 2004, the remaining part in April 2005.

A segmental analysis of the consolidated balance sheet and income statement is given in note 37.

During 2001 the controlling interests in the share capital of OAO UAZ and OAO ZMZ that had been previously acquired by related parties were transferred temporarily into Severstal to facilitate a group restructuring that was completed on September 16, 2002. These two investments together with a significant interest in the share capital of OAO HK Kuzbassugol, acquired in 2001 by Severstal, have not been consolidated in these financial statements because they were held for subsequent disposal, and were consequently carried at estimated fair value – being acquisition cost less impairment.

The group restructuring created two new entities (OAO Severstal-Auto and OAO Severstal-Resource) to contain the automotive and mining investments held by Severstal. These new companies were created through the contribution of shares held by Severstal in OAO UAZ and OAO ZMZ (Severstal-Auto); and, OAO Olkon, OAO Karelsky Okatysh, OAO HK

Kuzbassugol, OAO Stalmag and OOO Severny Niobium (Severstal-Resource). The shares in these new companies were distributed to the existing shareholders of Severstal through an 'in kind' dividend payment on September 16, 2002. In these consolidated financial statements the value of the dividend has been recorded at the carrying value of the assets and liabilities effectively distributed during this dividend payment. The cash equivalent of these dividends was determined by independent valuation as Rbs 28.80 per share (US$ 21.1 million in total).

A large part of the Group is 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.

International sales of rolled steel from the Group's Russian operations 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.

2. Presentation of the financial statements

Statement of compliance
These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and are prepared under the historic cost convention 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 consistently applied in the preparation of these consolidated financial statements are set out in note 3.

Early adoption of IFRS
In the preparation of the these consolidated financial statements, 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'*.

The above reporting and accounting standards were adopted from the first occasion on which the Group started to prepare general purpose consolidated financial statements. Had the Group not adopted these new and revised standards, then as at the balance sheet date cumulative negative goodwill of US$ 105.1 million (2003: US$ 43.8 million; 2002: US$ 37.7 million) would have been capitalized instead of being recognized directly in the income statement.

Going concern basis
These consolidated 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.

Use of estimates
The preparation of consolidated 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.

Functional and presentation currency
The national currency of the Russian Federation is the rouble. After extensive reviews of Severstal's operations management has determined that Severstal's functional currency changed from the United States dollar ('US dollar') to the Russian rouble ('Rbs'). This change reflects (i) the consequences of the recent changes in the Russian economic environment; and (ii) a move away from commodity steels sold in spot markets to value added products for specific customers; both of which combined together to permit Severstal to move its selling and purchasing activities from mainly US dollar based transactions to mainly rouble based transactions.

The date of Severstal's functional currency transition has been set at January 1, 2004. However, since the Group's consolidated financial statements were previously presented in US dollars, management has elected to continue to use the US dollar as the Group's presentation currency for the purposes of these consolidated financial statements to facilitate the comparability of the Group's results.

The rouble is not a fully convertible currency outside the Russian Federation and accordingly, any conversion of rouble amounts into 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, directly or indirectly, by the Parent Company. The financial statements of subsidiaries are included in these 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 the Group has significant influence, but does not have control over the financial and operating policies. These 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.

The Group enters into transactions with special purpose entities ('SPEs'), for business purposes, in which it does not hold any direct or indirect equity interest. These entities are established with arrangements that impose limits on the operational decision-making powers of the entities' management. To the extent that the Group retains significant beneficial interests in the entities' activities, the beneficial interests of the Group in the financial position and results of these entities are included in these consolidated financial statements.

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.

Acquisitions of controlling interests in companies that were previously under the control of the same controlling shareholder as the Group are accounted for as if the acquisition had occurred at the date on which control was obtained by the common controlling shareholder. For this purpose comparatives are restated. The assets and liabilities acquired are recognized at their book values as already recorded in the IFRS consolidated financial statements of the common controlling shareholder. 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.

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

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses arising on translation are recognized in the income statement.

Presentation and consolidation
For presentation and consolidation purposes all the assets and liabilities at the balance sheet date are translated into US dollars at the foreign exchange rate ruling on that date. Revenues and expenses are translated into US dollars using rates approximating the foreign exchange rates ruling on the dates of the transactions. Foreign exchange gains and losses arising on translation into the presentation currency are recognized directly in the statement of changes in shareholders' equity.

Foreign exchange gains and losses
An analysis of the foreign exchange gains and losses recognized in these consolidated financial statements is given in note 34.

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 and measurement
Investments are recognised/(derecognised) when the Group obtains/(loses) control over the contractual rights inherent in that asset. Investments are accounted for as follows:

- Investments held for trading are stated at fair value, with any resultant gain or loss recognised in the income statement.
- Investments held-to-maturity, including acquired promissory notes, are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the income statement.

The fair value of investments held for trading and available-for-sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

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 financial instruments are recognized in the income statement.

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 income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

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 and equipment the relevant portion of the revaluation reserve, net of deferred tax, is transferred directly into retained earnings.

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 income statement 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 recognized in the income statement as it arises.

Other intangible assets
Other intangible assets, which have finite useful lives, are stated at historical cost less accumulated depreciation and impairment. Expenditure on internally generated goodwill and brands is recognized in the income statement 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 income statement 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 amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other 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. Impairment losses in respect of revalued property, plant and equipment are recognised in the same way as revaluations; other impairment losses are recognised in the income statement.

Calculation of recoverable amount
The recoverable amount of the Group's held-to-maturity investments and loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. 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 in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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, net of any transaction costs incurred, and includes accrued interest at the balance sheet date. The difference between cost and redemption value is recognized in the income statement 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.

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 income statement 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 income statement.

n. Income recognition

Sales revenues
Revenue from the sale of goods is recognized in the income statement 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 income statement 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 pays retirement and post-employment medical benefits 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 income statement.

p. Net financing expense

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

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

All interest costs incurred in connection with borrowings, that 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 income statement using the effective interest rate method.

q. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming the share split in 2004 had occurred at the start of the earliest comparative period.

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. 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 the 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*'.

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.

t. 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 income statement as '*other operating expenses*' and the amortization of the corresponding deferred income accounts is recorded in the income statement as '*other operating income*'. If any part of the deferred income is not utilized it is transferred back to income statement and subject to income tax.

(Tabular amounts expressed in thousands of US dollars)

4. Sales

Sales by product were as follows:

	2004	2003	2002
Hot rolled sheet	2,442,035	1,193,730	721,434
Cold rolled sheet	1,328,228	651,694	412,557
Galvanized sheet	795,174	212,565	165,625
Hot rolled sections	480,834	287,364	200,759
Semi finished products	322,729	78,670	102,314
Further processed products	261,476	212,009	211,980
Wire	248,806	118,162	73,936
Chemical by-products	69,808	47,856	32,519
Fastenings	59,519	33,885	26,606
Wire rope	62,657	27,977	18,253
Netting	28,683	13,246	8,888
Repair services	26,289	19,857	1,074
Manufactured equipment	23,252	2,919	6,558
Electric arc welding rods	16,076	10,681	5,636
Iron ore concentrate	-	-	1,665
Other	148,362	33,752	75,957
Shipping and handling costs billed to customers	334,001	259,517	209,419
	6,647,929	3,203,884	2,275,180

Sales by delivery destination were as follows:

	2004	2003	2002
Russian Federation	2,693,595	1,860,711	1,165,768
United States of America ('USA')	1,787,659	3,149	105,883
Europe	1,209,435	441,090	333,057
The Middle East	340,894	193,792	109,931
Central Asia	123,602	304,208	139,930
Africa	116,856	99,413	102,740
Central America	161,204	62,993	59,830
South-East Asia	102,784	216,087	217,948
South America	71,628	22,441	40,093
North America (excluding the USA)	40,272	-	-
	6,647,929	3,203,884	2,275,180

5. Net other operating expenses

	2004	2003	2002
Amortization of deferred income	-	3,498	3,029
Fee and commission income	1,328	1,158	945
Other income	2,148	1,508	991
Loss on disposal of property, plant and equipment	(26,102)	(20,345)	(32,407)
Expenses on social and research projects	(1,741)	(2,247)	(2,145)
Tax penalties	(761)	(178)	2,738
Political donations	-	-	(217)
Loss on disposal of intangible assets	-	-	(71)
Foreign exchange (losses)/gains on:			
cash balances	(32,429)	12,931	478
deferred income	-	(144)	875
	(57,557)	(3,819)	(25,784)

(Tabular amounts expressed in thousands of US dollars)

6. Staff costs

Employment costs were as follows:

	2004	2003	2002
Wages and salaries	(492,028)	(227,977)	(195,794)
Social security costs	(105,474)	(69,164)	(61,875)
Retirement benefit costs (see note 30)	(6,395)	(2,917)	(4,429)
Gross staff costs	(603,897)	(300,058)	(262,098)
Actuarial losses recognized (see note 30)	(48,156)	(5,560)	(15,106)
Foreign exchange (losses)/gains on unpaid liabilities:			
Wages, salaries and social benefits	-	(633)	343
Social security costs	-	(277)	197
Retirement benefit provision (see note 30)	-	(3,975)	1,520
Net staff costs	(652,053)	(310,503)	(275,144)

Included within the total social security costs paid to governments are payments to state pension funds totaling US$ 70.5 million (2003: US$ 57.4 million; 2002: US$ 48.1 million).

The number of full time employees at the balance sheet date were as follows:

	2004	2003	2002
Iron and steel manufacture and sales	36,485	36,858	36,145
Metal reprocessing and machining	14,828	12,906	6,844
Other activities	3,284	11,613	9,450
Total active employees	54,597	61,377	52,439
Retired employees receiving benefits	24,439	23,432	22,861
	79,036	84,809	75,300

7. Net expenses from insurance operations

	2004	2003	2002
Gross premium income:			
Non-life insurance	11,610	7,459	3,911
From related parties	3,568	6,827	3,613
Outward reinsurance premiums	(19,042)	(28,009)	(16,995)
Claims paid:			
Non-life insurance	(7,531)	(4,077)	(5,395)
To related parties	(2,307)	(680)	(299)
Re-insurers’ share of claims paid	3,125	648	275
Change in technical reserves	(7,660)	3,535	(3,466)
	(18,237)	(14,297)	(18,356)

(Tabular amounts expressed in thousands of US dollars)

8. Net income from bank lending operations

	2004	2003	2002
Interest income:			
Placements with other financial institutions	1,871	861	408
Loans to bank customers:			
- external	3,801	2,109	1,806
- related parties	2,597	1,774	681
Interest expense:			
Deposits from other financial institutions	(3)	(410)	(28)
Client accounts:			
- external	(3,899)	(397)	(487)
- related parties	(99)	(5)	(80)
Loan loss provisions:			
Specific	(319)	(2,611)	151
General	-	308	40
Leasing:			
Operating lease income	28	277	49
Finance lease interest income	286	50	148
Foreign exchange losses on lease receivables	-	(57)	(73)
	4,263	1,899	2,615

9. Net income/(expenses) from securities operations

	2004	2003	2002
Held-for-trading securities:			
Net trading income	2,477	1,432	246
Restatement to fair value	-	2,402	1,171
Held to maturity securities and originated loans:			
Coupon income	-	22	39
Foreign exchange gain/(loss)	-	38,312	(15,790)
Restatement to fair value	10,061	(10,933)	(863)
Available-for-sale securities - held for investment purposes:			
Profit/(loss) on disposal	21,479	220	(366)
Restatement to fair value	(8,712)	(1,120)	3,338
Dividends received	525	392	-
	25,830	30,727	(12,225)

10. Net non-operating expenses

	2004	2003	2002
Social expenditure	(12,199)	(9,126)	(11,934)
Charitable donations	(10,272)	(8,682)	(8,215)
Depreciation of community and infrastructure assets	(1,449)	(2,302)	(1,117)
Gain/(loss) on disposal of:			
associates OOO Severstal-Mebel and OOO Severstal-Emal	-	(736)	-
subsidiaries (see note 35)	20,475	-	(772)
	(3,445)	(20,846)	(22,038)

(Tabular amounts expressed in thousands of US dollars)

11. Net financing expense

	2004	2003	2002
Interest income:			
Related parties	10,584	11,190	2,627
External banks	29,377	9,950	6,659
Interest expense:			
Related parties	(1,007)	(454)	(1,000)
External banks	(100,569)	(24,797)	(23,886)
Finance lease interest	(152)	-	(2)
Amortization of transaction costs	(2,322)	-	-
Foreign exchange gains/(losses) on:			
Short term deposits	(3,521)	3,678	(2,947)
Debt finance	35,106	(12,913)	470
Unpaid lease liabilities	-	1	-
	(32,504)	(13,345)	(18,079)

12. Taxation

The following is an analysis of the income tax expense:

	2004	2003	2002
Current tax charge	(501,084)	(213,155)	(122,989)
Corrections to prior year's current tax charge	4,607	8,398	7,753
Deferred tax benefit	14,853	42,495	53,568
Foreign exchange gain/(loss) on unpaid liabilities	2	(137)	(114)
Income tax expense	(481,622)	(162,399)	(61,782)

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the statutory tax rate of 24.0% to reported profit before income tax.

	2004	2003	2002
Profit before income tax	1,890,139	766,485	242,985
Tax charge at the statutory rate	(453,633)	(183,956)	(58,316)
Non-tax deductible items	(21,298)	(17,836)	(11,208)
Activities taxed at different rates	(15,250)	11,668	650
Effect of exchange rate differences on temporary differences	3,950	19,464	(547)
Corrections to prior year's current tax charge	4,607	8,398	7,753
Foreign exchange loss on unpaid liabilities	2	(137)	(114)
Income tax expense	(481,622)	(162,399)	(61,782)

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:

	2004	2003	2002
Deferred tax assets/(liabilities):			
Property, plant and equipment	(277,109)	(272,212)	(320,738)
Provisions	32,770	5,787	6,910
Other	(33,492)	18,782	28,381
	(277,831)	(247,643)	(285,447)

(Tabular amounts expressed in thousands of US dollars)

The movement in the net deferred tax liability is as follows:

	2004	2003	2002
Opening balance	(247,643)	(285,447)	(344,691)
Recognized in income statement	14,853	42,495	53,568
Recognized in shareholders' equity	-	1,184	-
Business combinations	(37,343)	(5,875)	-
Business de-combinations	7,284	-	
Spun-off	-	-	5,676
Foreign exchange difference	(14,982)	-	-
Closing balance	(277,831)	(247,643)	(285,447)

13. Cash and cash equivalents

	2004	2003	2002
Petty cash	1,872	1,217	760
Cash at bank:			
Related party banks	31,096	31,555	10,512
Nostro accounts at the Central Bank of Russia	48,904	50,688	6,124
International banks	44,345	77,124	47,472
Russian banks	431,696	80,477	11,938
Escrow accounts	33,711	56,963	13,417
Short term deposits:			
Related party banks	128,715	82,220	18,719
International banks	124,557	36,727	18,580
Russian banks	79,475	46,731	61,875
	924,371	463,702	189,397

14. Banking assets

	2004	2003	2002
Nostro accounts at other financial institutions	27,210	1,987	714
Placements with international banks	96,686	57,191	15,318
Placements with Russian banks	33,152	1,119	8,099
Loans to bank customers:			
Related parties	31,009	41,612	8,069
Third parties	32,835	19,292	8,197
Loan loss provisions	(3,606)	(3,642)	(1,339)
	217,286	117,559	39,058

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

(Tabular amounts expressed in thousands of US dollars)

15. Trade accounts receivable

	2004	2003	2002
Customers	461,058	170,896	130,447
Allowance for doubtful accounts	(4,926)	(3,837)	(6,159)
	456,132	167,059	124,288
Movement in allowance for doubtful accounts:			
Opening balance	(3,837)	(6,159)	(5,410)
Amounts written off during the year	40	283	-
Change in provision	1,568	3,862	(918)
Spun off	-	-	169
Business combinations	(2,617)	(1,823)	-
Business de-combinations	115	-	-
Foreign exchange difference	(195)	-	-
Closing balance	(4,926)	(3,837)	(6,159)

16. Inventories

	2004	2003	2002
Raw materials	370,797	140,967	86,593
Non-production inventories	58,473	30,916	28,885
Work-in-progress	122,727	67,079	47,687
Finished goods	472,307	105,751	83,652
	1,024,304	344,713	246,817

Of the above amounts US$ 52.2 million (2003: US$ 26.5 million; 2002: US$ 23.1 million) are stated at net realizable value, these amounts exclude inventories fully provided against.

17. Amounts receivable from related parties

	2004	2003	2002
Advances paid	26,557	13,299	8,214
Trade accounts receivable	62,701	38,227	32,494
Other receivables	197,955	182,197	944
	287,213	233,723	41,652
Maturity analysis:			
within one year	287,213	52,280	41,652
after more than one year	-	181,443	-
	287,213	233,723	41,652

Income received from related parties was as follows:

	2004	2003	2002
Sales	379,134	282,652	228,678
Banking income	2,597	1,774	681
Insurance premiums	3,568	6,827	3,613

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

(Tabular amounts expressed in thousands of US dollars)

18. Other current assets

	2004	2003	2002
Advances paid	81,329	48,740	55,098
Prepayments	23,343	7,035	5,611
Other taxes and social security prepaid	6,998	468	22,238
Other assets	6,645	12,525	9,062
Insurance and reinsurance receivables	-	2,388	1,252
	118,315	71,156	93,261

19. Lease receivables

	Total Receivable	Interest	Net Receivable
As at December 31, 2004			
Less than one year	-	-	-
Between one and five years	-	-	-
	-	-	-
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

(Amounts expressed in thousands of US dollars)

20. Financial assets

The Group's current financial assets are as follows:

	2004	2003	2002
Held-for-trading - equity securities:			
Quoted equity shares	826	2,192	2,270
Available-for-sale securities - held for resale			
Non-quoted equity shares	-	2,329	-
other	85	-	-
Held to maturity securities:			
Deposits at related banks	83,012	21,764	314
Deposits at International banks	-	82,054	7,000
Deposits at Russian banks	472,347	24,121	9,764
Originated loans:			
Loans to related parties	35,143	4,313	129,445
Loans to third parties	10,867	57,395	78,451
Held-for-trading securities - promissory notes:			
From related parties	10,114	18,225	64,734
From third parties	49,571	38,442	38,133
Held-for-trading securities - bonds:			
Russian Government bonds	579	150	216
	662,544	250,985	330,327

As at the year end, of the short term deposits US$ nil, (2003: US$ 80.8 million; 2002: US$ 7.0 million) were used as collateral to guarantee borrowings by 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:

	2004	2003	2002
Available-for-sale securities - held for investment:			
Non-quoted equity shares	30,037	44,604	57,392
Originated loans:			
Loans to related parties	58,991	79,352	29,539
Loans to third parties	1,466	1	6,500
Held-to-maturity securities - promissory notes:			
From related parties	-	87	477
From third parties	-	2,576	13,341
	90,494	126,620	107,249

22. Investment in associates

The Group's investment in associated companies (see note 35) is as follows:

	2004	2003	2002
Double Eagle Steel Coating Company	29,296	-	-
Spartan Steel Coating LLC	52,915	-	-
FDS Coke Holdings LLC	2,893	-	-
OOO Severstal-Emal	-	-	5,229
OOO Severstal-Mebel	-	-	2,436
Others	666	809	165
	85,770	809	7,830

(Amounts expressed in thousands of US dollars)

23. 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, 2003	382,468	1,954,812	74,735	2,412,015	28,652	295,745	2,736,412
Reclassifications	21,814	(20,628)	(1,407)	(221)	221	-	-
Additions:							
External	-	-	-	-	-	606,251	606,251
Interest capitalised	-	-	-	-	-	4,639	4,639
Business combinations	29,142	66,768	1,230	97,140	-	380	97,520
Disposals:							
External	(4,472)	(52,149)	(4,033)	(60,654)	(1,201)	(14,446)	(76,301)
Business de-combinations	(30,105)	(16,810)	(14,007)	(60,922)	(3)	(6,769)	(67,694)
Transfer to inventories	-	-	-	-	-	(6,209)	(6,209)
Transfers	15,774	187,158	25,339	228,271	6,703	(234,974)	-
Foreign exchange difference	25,025	124,252	5,271	154,548	1,939	24,494	180,981
December 31, 2004	439,646	2,243,403	87,128	2,770,177	36,311	669,111	3,475,599
Depreciation and impairment:							
December 31, 2003	76,465	526,327	26,224	629,016	10,830	100,985	740,831
Reclassifications	12,995	(12,492)	(681)	(178)	178	-	-
Depreciation expense	29,108	206,281	12,931	248,320	1,449	-	249,769
Business combinations	-	737	-	737	-	-	737
Disposals - external:							
External	(1,484)	(30,720)	(2,814)	(35,018)	(350)	(13,086)	(48,454)
Business de-combinations	(11,700)	(5,989)	(4,493)	(22,182)	(3)	(1,966)	(24,151)
Transfer to inventories	-	-	-	-	-	(15)	(15)
Transfer from CIP	703	2,422	552	3,677	3,920	(7,597)	-
Impairment of assets:							
included in income statement	-	-	1,067	1,067	769	14,230	16,066
Foreign exchange difference	5,947	37,256	1,981	45,184	851	6,010	52,045
December 31, 2004	112,034	723,822	34,767	870,623	17,644	98,561	986,828
Net book values:							
December 31, 2003	306,003	1,428,485	48,511	1,782,999	17,822	194,760	1,995,581
December 31, 2004	327,612	1,519,581	52,361	1,899,554	18,667	570,550	2,488,771
Net book values based on cost, less depreciation and impairment:							
December 31, 2003	305,761	470,248	48,484	824,493	17,822	194,760	1,037,075
December 31, 2004	311,909	618,397	52,362	982,668	18,667	570,550	1,571,885

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, 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
December 31, 2004							
Cost	-	16,799	4	16,803	-		16,803
Accumulated depreciation	-	(7,474)	(3)	(7,477)	-		(7,477)
Net book value	-	9,325	1	9,326	-		9,326

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 11.08% per annum.

Management has reviewed the carrying amounts of property, plant and equipment and has found no indications that the carrying amount differs materially from that which would be determined using fair values at the balance sheet date.

(Amounts expressed in thousands of US dollars)

24. Intangible assets

The movements in intangible assets are as follows:

	Software	Technical drawings	Goodwill	Total intangible assets
Cost:				
December 31, 2003	567	4,009	11,966	16,542
Additions:				
External	10	4,868	-	4,878
Business combinations	-	-	293	293
Disposals:				
Business de-combinations	(1)	(4,254)	(10,841)	(15,096)
Foreign exchange difference	36	245	-	281
December 31, 2004	612	4,868	1,418	6,898
Amortization and impairment:				
December 31, 2003	429	2,998	10,548	13,975
Amortization expense	55	214	-	269
Disposals:				
Business de-combinations	-	(3,403)	(10,548)	(13,951)
Foreign exchange difference	28	191	-	219
December 31, 2004	512	-	-	512
Net book values:				
December 31, 2003	138	1,011	1,418	2,567
December 31, 2004	100	4,868	1,418	6,386

(Tabular amounts expressed in thousands of US dollars)

25. Bank customer accounts

	2004	2003	2002
Customer accounts:			
Demand deposits	42,825	49,514	3,413
Term deposits	1,865	713	3,437
Deposits from other financial institutions:			
Vostro accounts	5	652	7
	44,695	50,879	6,857

26. Amounts payable to related parties

	2004	2003	2002
Advances received	1,874	1,909	1,020
Trade accounts payable	68,519	23,540	9,056
Other accounts payable	122	16,534	22,772
Bank demand deposits	11,827	472	307
Bank term deposits	29,751	85	696
	112,093	42,540	33,851

Purchases from related parties were as follows:

	2004	2003	2002
Non-capital purchases	817,095	596,774	285,940
Capital purchases	23,003	773	7,133
Bank expenses	99	5	80
Insurance claims paid	2,307	680	299

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

27. Debt finance

	2004	2003	2002
Related party banks	-	6,251	-
International banks	1,222,988	276,827	77,095
Russian banks	181,687	134,901	90,150
Bonds issued in Russia	108,113	101,852	-
Factoring of receivables	22,924	1,240	-
Promissory notes issued	3,650	5,734	8,270
Other entities	4,933	230	-
Accrued interest	21,912	1,970	837
Unamortized balance of transaction costs	(13,062)	-	-
	1,553,145	529,005	176,352
Total debt is denominated in the following currencies:			
US dollars	1,172,042	237,602	126,969
Roubles	302,801	270,333	35,349
Euro	78,302	21,070	14,034
	1,553,145	529,005	176,352
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	227,821	186,088	92,556
Between one and five years	939,826	323,169	83,796
After more than five years	385,498	19,748	-
	1,553,145	529,005	176,352

(Tabular amounts expressed in thousands of US dollars)

Debt finance raised from banks is secured by charges over:

- US$ 144.4 million (2003: US$ 133.6 million; 2002: US$ 323.4 million) net book value of plant and equipment;
- US$ 508.2 million (2003: US$ 67.2 million; 2002: US$ 27.0 million) of current assets; and,
- US$ 39.5 million (2003: US$ 60.3 million; 2002: US$ nil) of financial assets.

At the balance sheet date the Group had US$ 289.2 million (2003: US$ 286.4 million; 2002: US$ 16.0 million) of unused long term credit lines available to it.

28. Lease liabilities

	Total payable	Interest	Net payable
As at December 31, 2004			
Less than one year	425	(74)	351
Between one and five years	505	(55)	450
	930	(129)	801
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

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

29. Other current liabilities

	2004	2003	2002
Advances received	108,005	85,896	55,535
Amounts payable to employees	48,660	22,724	15,780
Accrued expenses	12,590	2,819	3,042
Other liabilities	2,249	3,244	7,349
Insurance and reinsurance payables	-	13,014	2,849
	171,504	127,697	84,555

(Tabular amounts expressed in thousands of US dollars)

30. Other non-current liabilities

	2004	2003	2002
Retirement benefit liability	98,574	31,827	38,288
Other	5,503	-	-
Insurance reserves:			
Unearned premium reserve	-	13,232	8,437
Recognized but not settled reserve	-	728	6,206
Incurred but not reported reserve	-	6,273	2,593
Life insurance reserve	-	4	1
Preventative reserve	-	8	8
Re-insurer's share of reserves:			
Unearned premium reserve	623	(9,611)	(4,745)
Recognized but not settled reserve	-	(667)	(71)
Incurred but not reported reserve	-	(2,250)	(1,177)
	104,700	39,544	49,540

The following assumptions have been used to calculated the retirement benefit liability:

	2004 USA	2004 Russia	2003 Russia	2002 Russia
Discount rate	5.75%	8.50%	8.27%	9.07%
Expected return on plan assets	n/a	8.09%	17.00%	10.25%
Future rate of benefit increase	n/a	6.20%	0.0%	0.0%
Future rate of medical cost increases	11.00%	n/a	n/a	n/a

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

	2004	2003	2002
Components of the net retirement benefit liability:			
Retirees	52,293	35,045	31,697
Other participants:			
Vested	2,191	7,700	4,928
Non-vested	94,336	18,539	12,891
Present value of the defined benefit obligation	148,820	61,284	49,516
Fair value of the plan assets	(50,246)	(29,457)	(11,228)
	98,574	31,827	38,288
Movements in the net retirement benefit liability:			
Net liability at beginning of year	31,827	38,288	29,778
Spun off	-	-	(354)
Business combinations	31,368	-	-
Business de-combinations	(4,770)	-	-
Contributions made during the year	(17,406)	(18,913)	(9,151)
Amounts recognized in the income statement:			
Expected return on plan assets	(3,143)	(2,462)	(704)
Interest cost	6,990	4,493	4,607
Service cost	2,548	886	526
Actuarial losses	48,156	5,560	15,106
Foreign exchange loss/(gain) recognized in:			
- income statement	-	3,975	(1,520)
- equity	3,004	-	-
Net liability at end of year	98,574	31,827	38,288

The retirement benefit expenses that are recognized in the income statement are contained in the caption: 'Selling, general and administration expenses'.

(Tabular amounts expressed in thousands of US dollars)

31. Share capital

The Parent Company's authorized capital, according to its Charter Document, at the balance sheet date comprised 551,854,800 ordinary shares with a nominal value of Rbs 0.01 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. Consequently, the total value of share capital presented in these consolidated financial statements comprises:

	2004	**2003**	**2002**
Nominal share capital at current exchange rate	199	187	173
Historic difference	3,310,930	3,310,942	3,310,956
Total historic value of share capital	3,311,129	3,311,129	3,311,129

All shares carry equal voting and distribution rights. The movements in shares during the period were as follows:

	Shares issued and fully paid
As at December 31, 2002 and 2003	22,074,192
Share split (1 to 25 effective December 30, 2004)	529,780,608
As at December 31, 2004	551,854,800

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$ 2,471.7 million (2003: US$ 1,283.4 million; 2002: US$ 934.3 million).

32. 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$ nil million (2003: US$ 4.0 million; 2002: US$ 0.3 million) and the tax authorities totaling US$ 15.0 million (2003: US$ nil; 2002: US$ 1.0 million). Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements. Additionally, at the balance sheet date the Group had outstanding letters-of-credit in the amount of US$ 48.6 million.

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 varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during 2004 suggest that the regulatory authorities within the Russian Federation are adopting a more assertive stance regarding the interpretation and enforcement of legislation. 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$ 212.6 million (2003: US$ 208.1 million; 2002: US$ 133.7 million).

d. Insurance

The Group has insured its property and equipment to compensate for expenses arising from accidents. However, it does not have full insurance for business interruption or third party liability in respect of property or environmental damage.

e. Guarantees

At the balance sheet date the Group had given US$ 65.3 million (2003: US$ 55.8 million; 2002: US$ 33.4 million) of guarantees for bank borrowings, of which all were in respect of borrowings by related parties. These guarantees mature in accordance with the debts they guarantee over periods up to 2013.

33. Financial instruments

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The steel, metalware, mining and insurance segments of the Group do not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. As at December 31, 2004, 2003 and 2002 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.

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet and guarantees (see note 32e). 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.

(Tabular amounts expressed in thousands of US dollars)

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 Group incurs currency risk when an entity enters into transactions and balances not denominated its functional 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.

Commodity price risk
The Group minimizes its exposure to fluctuations in the price of its major inputs through purchasing its principal raw materials from mines owned and controlled by its shareholders or through signing long term contracts with suppliers. Exposure to fluctuations in sales prices are minimized by establishing long term relations with key customers through quality service and appropriate contractual arrangements.

Long term construction contract risk
The Group minimizes its risk of loss through not completing major construction contracts on time by using reputable suppliers that where possible are able to issue performance guarantee bonds.

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.

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, 2004:				
Short term bank deposits	6.75%	3.40%	4.50%	-
Placements at financial institutions	0.18%	2.21%	1.63%	-
Loans to bank customers	9.20%	11.76%	12.65%	-
Held-for-trading securities	8.17%	-	-	-
Held-to-maturity securities	8.17%	-	-	-
Originated loans	8.17%	-	-	-
Bank customer accounts	2.91%	0.63%	0.51%	-
Promissory notes issued	8.17%	-	-	-
Bank loan finance	9.88%	7.91%	5.70%	-
Bonds issued in Russia	9.75%	-	-	-
Lease liabilities	-	8.09%	-	10.64%

(Tabular amounts expressed in thousands of US dollars)

	Rouble	US dollar	Euro	Lat
As at December 31, 2003:				
Short term bank deposits	7.69%	3.21%	1.87%	-
Placements at financial institutions	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%	-	-	-
Lease receivables	1.30%	-	-	-
Bank customer accounts	5.62%	0.46%	1.86%	-
Promissory notes issued	9.10%	-	-	-
Bank loan finance	10.71%	4.28%	3.95%	-
Bonds issued in Russia	9.75%	-	-	-
Lease liabilities	-	0.07%	-	10.64%
As at December 31, 2002:				
Short term bank deposits	7.76%	1.50%	-	-
Placements at financial institutions	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%	-	-
Lease receivables	16.45%	-	-	-
Bank customer accounts	5.62%	0.46%	1.86%	-
Promissory notes issued	10.00%	-	-	-
Bank loan finance	18.00%	7.65%	3.86%	-
Lease liabilities	-	0.07%	-	10.64%

34. Foreign exchange gains and losses

As a result of converting foreign currency transactions into the functional currencies of each entity certain foreign exchange gains/(losses) were recognized, and allocated according to their nature, in the consolidated income statement. The recognition, allocation and origination of these gains/(losses) was as follows:

	2004	2003	2002
Allocation:			
Net sales	(15,918)	6,599	(866)
Cost of sales	(3,530)	(971)	3,026
Selling, general and administration expenses	910	(1,025)	(4,682)
Indirect taxes and contributions	303	(1,672)	439
Net other operating income	(32,429)	12,787	1,353
Net income from banking operations	-	(57)	(73)
Net income/(expense) from securities operations	-	38,312	(15,790)
Sub-total	(50,664)	53,973	(16,593)
Net financing (expense)/income	31,585	(9,234)	(2,477)
Income tax expense	2	(137)	(114)
	(19,077)	44,602	(19,184)

(Tabular amounts expressed in thousands of US dollars)

	2004	2003	2002
Origination:			
Cash and cash equivalents	(32,429)	12,931	478
Financial assets - debt securities	-	38,312	(15,790)
Trade accounts receivable	(15,918)	6,599	(866)
VAT recoverable	637	4,522	(3,404)
Other current assets	(236)	(310)	(3,688)
Lease receivables	-	(57)	(73)
Trade accounts payable	(3,530)	(971)	3,026
Other taxes and social security payable	303	(1,672)	439
Deferred income	-	(144)	875
Dividends payable	-	(207)	210
Other current liabilities	509	(1,055)	680
Retirement benefit liabilities	-	(3,975)	1,520
Sub-total	(50,664)	53,973	(16,593)
Financial assets - bank deposits	(3,521)	3,678	(2,947)
Income tax payable/(recoverable)	2	(137)	(114)
Debt finance	35,106	(12,913)	470
Finance leases payable	-	1	-
	(19,077)	44,602	(19,184)

As a result of presenting these financial statements in US dollars, the following foreign exchange gains and losses were recognized in the statement of changes in shareholders equity:

	2004	2003	2002
Origination:			
Cash and cash equivalents	25,044	-	-
Reserves at Central Bank of Russia	814	-	-
Banking assets	8,538	-	-
Trade accounts receivable	10,161	-	-
Inventories	22,983	-	-
Amounts receivable from related parties	14,359	-	-
VAT recoverable	4,732	-	-
Income tax recoverable	103	-	-
Other current assets	4,270	-	-
Lease receivables	23	-	-
Financial assets	22,400	-	-
Property, plant and equipment	128,936	-	-
Intangible assets	62	-	-
Trade accounts payable	(6,612)	-	-
Bank customer accounts	(3,128)	-	-
Amounts payable to related parties	(2,221)	-	-
Income taxes payable	(367)	-	-
Other taxes and social security payable	(1,102)	-	-
Deferred income	(128)	-	-
Other current liabilities	(7,996)	-	-
Debt finance	(29,197)	-	-
Lease liabilities	(34)	-	-
Retirement benefit liabilities	(3,004)	-	-
Other provisions	(438)	-	-
Deferred taxes	(14,982)	-	-
Minority interest	(133)	-	-
Revaluation reserve	(41,725)	-	-
Sub-total	131,358	-	-
Business de-combinations	(3,310)	-	-
	128,048	-	-

(Tabular amounts expressed in thousands of US dollars)

35. Subsidiary and associated companies

The following is a list of the Group's significant subsidiaries and associates and the effective holdings of ordinary shares therein.

Company	2004	2003	2002	Location	Activity
Steel segment - Russia:					
ZAO Severgal	75.0%	75.0%	75.0%	Russia	Hot dip galvanizing
ZAO Izhorsky Tube Factory	100.0%	100.0%	100.0%	Russia	Wide pipes
OOO SSM-Tyazhmash	nil%	100.0%	100.0%	Russia	Repairs & construction
OAO Domnaremont	nil%	56.4%	56.4%	Russia	Repairs & construction
OAO Metallurgremont	nil%	78.3%	73.4%	Russia	Repairs & construction
OOO Uralmash MO	nil%	100.0%	nil%	Russia	Engineering & design
ZAO Firma Stoik	nil%	100.0%	100.0%	Russia	Repairs & construction
OOO Energoremont	nil%	100.0%	100.0%	Russia	Repairs & construction
OOO Severstal-Emal	19.0%	19.0%	50.0%	Russia	Kitchenware
OOO Severstal-Mebel	19.0%	19.0%	50.0%	Russia	Metal furniture
OOO AviaCompany Severstal	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland	Steel sales
AS Severstallat	50.5%	50.5%	50.0%	Latvia	Steel sales
Armaturu Servisa Centrs SIA	25.0%	25.0%	25.0%	Latvia	Steel service center
Steel segment - USA					
Severstal North America Inc	100.0%	nil%	nil%	USA	Iron & steel mill
Double Eagle Steel Coating company	50.0%	nil%	nil%	USA	Electro-galvanizing
Spartan Steel Coating LLC	48.0%	nil%	nil%	USA	Hot dip galvanizing
FDS Coke Holdings LLC	45.0%	nil%	nil%	USA	Coking coal
Delaco Processing LLC	49.0%	nil%	nil%	USA	Steel slitting
Metalware segment:					
ZAO Severstal-Metiz	nil%	nil%	nil%	Russia	Management company
OAO Cherepovets Steel Rolling Mill	83.1%	82.3%	72.4%	Russia	Steel machining
OAO Orlovsky Steel Rolling Mill (*)	89.8%	89.8%	nil%	Russia	Steel machining
OOO Volgometiz	100.0%	nil%	nil%	Russia	Steel machining
OOO ChSPZ MKR	41.5%	41.2%	36.2%	Russia	Mattress springs
OOO Policher	74.8%	41.2%	nil%	Russia	Polymer coatings
(*) – 85.0% of total capital which includes preference shares					
Mining segment (see note 1):					
OAO Olkon	nil%	nil%	nil%	Russia	Iron ore mining
OAO Karelsky Okatysh	nil%	nil%	nil%	Russia	Iron ore mining
OAO Stalmag	nil%	nil%	nil%	Russia	Niobium ore mining
Insurance segment:					
OAO Insurance Company Sheksna	nil%	92.2%	91.9%	Russia	Insurance
OAO Sheksna-M	nil%	92.2%	91.9%	Russia	Medical insurance
OOO Sheksna-Life	nil%	nil%	nil%	Russia	Life insurance
Star Insurance Company Ltd	100.0%	100.0%	100.0%	UK	Insurance
Financing segment:					
OAO Metallurgical Commercial Bank	71.4%	72.5%	69.2%	Russia	Banking
OOO Promleasing	13.6%	56.3%	57.1%	Russia	Leasing

In addition, at the balance sheet date, a further 55 (2003: 87; 2002: 94) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

(Tabular amounts expressed in thousands of US dollars)

Acquisitions
ZAO Severstal-Metiz is a special purpose entity that manages the activities of the Metalware segment, it provides all administrative services to the companies of the Metalware segment and is the sole sales and procurement organization for the Metalware segment. In January 2005, Severstal acquired 100.0% of the outstanding share capital of ZAO Severstal-Metiz, from a company under common shareholder control, for US$ 0.8 million. The net assets of ZAO Severstal-Metiz, in accordance with IFRS, on the date of acquisition were US$ 2.1 million.

Minority interests in various subsidiaries were bought out by the Group as follows:

Company	**Share of net assets acquired**	**Amount paid**	**Negative goodwill**
Year ended December 31, 2004:			
OAO Cherepovets Steel rolling Mill	999	377	(622)
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 December 2002, the Group acquired the 56.44% controlling interest in OAO Domnaremont and the 73.44% controlling interest in OAO Metallurgremont, held by 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.

Subsequent to the acquisition, in September 2003, of 4.44% of the ordinary shares of OAO Orlovsky Steel Rolling Mill (‘OSPaZ’) by OAO Cherepovets Steel Rolling Mill (‘ChSPZ’), a related party obtained control of OSPaZ. By the end of December 2004 this control was converted into share ownership by ChSPZ and Severstal for payments of US$ 5.2 million and US$ 33.7 million respectively. As a result, the Group now controls 93.06% of the ordinary shares of OSPaZ, and the comparative financial information in these consolidated financial statements has been restated.

In October 2003, the Group acquired 100.0% of the share capital of OOO Uralmash MO for US$ 15.0 million.

In December 2003, the Group acquired the 100.0% controlling interest in the share capital of ZAO Firma Stoik, held by a company under common shareholder control, for US$ 9.1 million. 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 these consolidated financial statements has been restated.

(Tabular amounts expressed in thousands of US dollars)

The following reconciliations between the net assets and net profits shown in the consolidated financial statements for the year ended December 31, 2003 and the net assets and profits shown in these consolidated financial statements demonstrate the effect of restating the comparative period for the acquisition of OSPaZ:

	2003
Net assets shown in previous consolidated financial statements	2,597,059
Acquisition of OSPaZ:	
net assets of OSPaZ	44,783
goodwill on acquisition of control	1,418
effect on minority interest	(5,739)
acquisition cost of OSPaZ	(36,118)
Net assets shown in these consolidated financial statements	2,601,403
Net profit/(losses) attributable to shareholders shown in previous consolidated financial statements	590,571
Acquisition of OSPaZ:	
net profits of OSPaZ	9
negative goodwill written off	1,336
reversal of impairment on investment	5,041
effect on minority interest	(442)
Net profit attributable to shareholders shown in these consolidated financial statements	596,515

On January 30, 2004 the Group acquired the assets and business of the bankrupt Rouge Steel Company, through its US subsidiary Severstal North America Inc (‘SNA’), for US$ 259.5 million. During January 2004, the Group acquired 50.0% of the share capital of OAO Fingo for US$ 3.2 million. In December 2004, ChSPZ bought out four fifths of its partner’s 50.0% share of OOO Policher for US$ 0.3 million such that ChSPZ owned 90.0% of the share capital of OOO Policher.

The shareholders of OAO Volgograd Steel Rolling and Wire Rope Mill (‘VSPKZ’) started a restructuring process that resulted in them creating a new company, OOO Volgometiz in October 2003, to which the assets and business of VSPKZ were transferred. OOO Volgometiz was managed by ZAO Severstal-Metiz from July 2004 until the restructuring formalities were complete, thereafter Severstal acquired 100.0% of the share capital of OOO Volgometiz from the shareholders of VSPKZ for US$ 12.9 million, consequently OOO Volgometiz has been consolidated from July 2004.

(Tabular amounts expressed in thousands of US dollars)

The acquisitions described above had the following effect on the Group's assets and liabilities:

	2004	**2003**
Cash and cash equivalents	20,619	1,815
Trade accounts receivable (net)	73,288	11,273
Amounts receivable from related parties	1,210	508
VAT recoverable	229	1,244
Inventories	202,623	8,133
Taxes recoverable	2	15
Other current assets	28,512	4,389
Financial assets	85,898	3,329
Property, plant and equipment	96,783	56,203
Intangible assets	-	4,009
Goodwill		1,418
Trade accounts payable	(39,895)	(2,049)
Amounts payable to related parties	(23,748)	-
Income tax payable	(3)	-
Other taxes and social security payable	(344)	(654)
Other current liabilities	(28,183)	(10,709)
Debt finance	(470)	(22,475)
Lease liabilities	(546)	-
Deferred tax liabilities	(37,343)	(5,875)
Retirement benefit liabilities	(31,368)	-
Other non-current liabilities	(7,776)	-
Identifiable assets and liabilities	339,488	50,574
Minority share	(3,189)	(5,618)
Amount already accounted for by equity pick-up	(394)	-
Negative goodwill on acquisition	(60,652)	(1,336)
Goodwill on acquisition	293	10,548
Consideration satisfied in cash	275,546	54,168
Net cash in/(out) flow	(254,927)	(52,353)

The goodwill shown above on acquisitions of Russian companies arose because prior to acquisition only limited estimated financial information was available for the acquired companies. In respect of the acquisition by Severstal North America Inc, the negative goodwill arose from the 'distress' sale of a business under the jurisdiction of the bankruptcy courts in the USA.

Given the (i) limited estimated financial information of the Russian companies; and (ii) the limited information published by Rouge Steel company during its bankruptcy; it is not practical to give details of combined revenues from the start of the relevant reporting periods.

The post acquisition results of Severstal North America Inc are shown as a separate business segment in note 37 of these financial statements. Management considers that the method of operating the Metalware segment through centralized administration, sales and procurement functions renders the separate disclosure of the post acquisition results of the acquired companies in this segment impractical.

(Tabular amounts expressed in thousands of US dollars)

Disposals

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.

In December 2004, the Group sold, to related parties, the following subsidiary companies: OAO Domnaremont; OOO Electroremont; OOO SSM-Engineering Center; OOO Energoremont; OOO Fingo Komplex; OAO Fingo; OOO GK Severstalmash; OAO Metallurgremont; OOO RTI-Center; OOO SSM-Tyazhmash; OOO SeverStamp; ZAO Firma Stoik; OOO Severo-Zapadny Ogneupor; OOO TsRPO; OOO Uralmash MO; OAO Sheksna Insurance Company; OAO Sheksna-M; OOO Sheksna-Life; OOO Sheksna-Farma; OOO Oktyabrsky; ZAO Zemledelets-Severstal; OOO Promleasing; and OOO Severstal-Holding.

The deconsolidation and disposals described above, and the spin off described in note 1, had the following effect on the Group's assets and liabilities:

	2004 Disposals	2002 Deconsolidation	2002 Spin-off
Cash and cash equivalents	22,964	276	573
Trade accounts receivable	13,254	176	2,090
Amounts receivable from related parties	37,121	-	3,537
VAT recoverable	9,699	23	2,341
Inventories	44,674	239	7,157
Taxes recoverable	2,220	-	74
Other current assets	26,827	139	1,927
Financial assets	45,411	-	29,895
Property, plant and equipment	43,543	-	26,986
Intangible assets	852	-	-
Goodwill	293	-	-
Trade accounts payable	(19,720)	(11)	(5,491)
Amounts payable to related parties	(74,116)	-	(200)
Income taxes payable	(363)	-	-
Other taxes and social security payable	(6,313)	(26)	(917)
Other current liabilities	(24,450)	(44)	(6,088)
Debt finance	(20,335)	-	(3,487)
Deferred tax liabilities	(7,284)	-	(5,676)
Retirement benefit liabilities	(4,770)	-	(354)
Insurance reserves	(14,788)	-	-
Net identifiable assets and liabilities	74,719	772	52,367
Minority interest	(10,060)	-	(10,994)
Gain/(loss) on disposal	20,475	(772)	-
Consideration / dividend payout	85,134	n/a	41,373
Net cash outflow	(22,964)	(276)	(573)
Net amount receivable as at the balance sheet date	85,134	-	-

36. Subsequent events

On April 26, 2005 Severstal and its related parties (financed by Severstal) subscribed for new ordinary shares issued by Lucchini SpA (Italy) such that in exchange of Euro 430.0 million, Severstal and its related parties obtained 61.9% voting control of Lucchini SpA.

On April 29, 2005 the Group sold 86.0% of its 100.0% shareholding in the Star Insurance Company Ltd to related parties for US$ 1.0 million, the net assets of the Star Insurance Company Ltd as at December 31, 2004, in accordance with IFRS, were US$ 1.3 million.

On June 3, 2005 Severstal's ordinary shares were admitted for trading on the Moscow Interbank Currency Exchange ('MICEX').

On June 8, 2005 Severstal signed a US$ 300.0 million six year syndicated credit line led by the Moscow International Bank. The objective of which is to refinance existing borrowings on more favourable terms.

On June 10, 2005 the Meeting of Shareholders approved a final dividend of Rbs 3.00 per share in respect of 2004, and an interim dividend of Rbs 4.00 in respect of the first quarter of 2005.

(Amounts expressed in thousands of US dollars)

37. Segmental information

	Steel segment Russia	Steel segment USA	Metalware segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Segmental balance sheets as at December 31, 2004							
Assets							
Current assets:							
Cash and cash equivalents	1,029,139	4,412	3,858	50,645	4,633	(168,316)	924,371
Central bank reserves	-	-	-	4,695	-	-	4,695
Banking assets	-	-	-	229,898	-	(12,612)	217,286
Trade accounts receivable	325,571	101,815	28,746	-	-	-	456,132
Inventories	577,556	385,220	69,929	-	-	(8,401)	1,024,304
Amounts receivable from related parties	291,513	1,053	8,423	-	-	(13,776)	287,213
VAT recoverable	147,123	-	26,249	-	-	-	173,372
Income tax recoverable	40,675	6	3,264	-	-	-	43,945
Other current assets	90,772	18,883	8,405	253	2	-	118,315
Financial assets	662,315	85	102	47,523	-	(47,481)	662,544
Total current assets	3,164,664	511,474	148,976	333,014	4,635	(250,586)	3,912,177
Non-current assets:							
Financial assets	463,128	-	1,156	827	-	(374,617)	90,494
Investment in associates	408	85,104	7,618	-	-	(7,360)	85,770
Property, plant and equipment	2,285,997	69,587	132,663	524	-	-	2,488,771
Intangible assets	4,868	-	1,418	100	-	-	6,386
Total non-current assets	2,754,401	154,691	142,855	1,451	-	(381,977)	2,671,421
Total assets	5,919,065	666,165	291,831	334,465	4,635	(632,563)	6,583,598
Liabilities and shareholders' equity							
Current liabilities:							
Trade accounts payable	195,923	107,620	8,428	-	-	-	311,971
Bank customer accounts	-	-	-	44,695	-	-	44,695
Amounts payable to related parties	68,774	2,427	14,916	255,550	-	(229,574)	112,093
Income taxes payable	21,059	9,403	3	-	-	-	30,465
Other taxes and social security payable	15,653	2,396	14,463	8	-	-	32,520
Deferred income	1,956	-	-	-	-	-	1,956
Debt finance	194,750	18,568	27,115	-	-	(12,612)	227,821
Lease liabilities	171	180	-	-	-	-	351
Dividends payable	18,440	-	-	-	-	-	18,440
Other current liabilities	137,432	22,269	11,623	169	11	-	171,504
Total current liabilities	654,158	162,863	76,548	300,422	11	(242,186)	951,816
Non-current liabilities:							
Debt finance	1,318,812	-	6,512	-	-	-	1,325,324
Lease liabilities	217	233	-	-	-	-	450
Deferred tax liabilities	216,784	52,351	12,482	(108)	-	(3,678)	277,831
Other non-current liabilities	47,958	39,280	16,839	-	623	-	104,700
Total non-current liabilities	1,583,771	91,864	35,833	(108)	623	(3,678)	1,708,305
Minority interest	28,203	-	27,024	-	-	8,799	64,026
Shareholders' equity:							
Share capital	3,311,129	275,500	-	34,807	-	(310,307)	3,311,129
Additional paid in capital	-	-	85,806	-	200	(86,006)	-
Revaluation reserve	670,274	-	-	-	-	-	670,274
Foreign exchange reserve	118,017	-	8,425	2,061	-	(455)	128,048
Accumulated deficit	(446,487)	135,938	58,195	(2,717)	3,801	1,270	(250,000)
Total shareholders' equity	3,652,933	411,438	152,426	34,151	4,001	(395,498)	3,859,451
Total liabilities and shareholders' equity	5,919,065	666,165	291,831	334,465	4,635	(632,563)	6,583,598

(Amounts expressed in thousands of US dollars)

37. Segmental information

	Steel segment	Metalware 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	4,100	51,792	32,079	(139,510)	463,702
Central bank reserves	-	-	13,247	-	-	13,247
Banking assets	-	-	124,750	-	(7,191)	117,559
Trade accounts receivable	148,120	18,472	467	-	-	167,059
Inventories	308,230	41,208	23	78	(4,826)	344,713
Amounts receivable from related parties	55,854	2,629	211	9,482	(15,896)	52,280
VAT recoverable	75,239	8,043	353	-	-	83,635
Income tax recoverable	1,331	-	-	885	-	2,216
Other current assets	61,394	5,436	299	4,027	-	71,156
Lease receivables	4	-	203	-	(5)	202
Financial assets	187,152	29	35,646	36,295	(8,137)	250,985
Total current assets	1,352,565	79,917	226,991	82,846	(175,565)	1,566,754
Non-current assets:						
Amounts receivable from related parties	181,443	-	-	-	-	181,443
Lease receivables	3	-	26	-	-	29
Financial assets	213,431	1,882	1,014	2,535	(92,242)	126,620
Investment in associates	120	6,851	-	-	(6,162)	809
Property, plant and equipment	1,876,081	114,733	2,093	2,674	-	1,995,581
Intangible assets	1,010	1,418	139	-	-	2,567
Total non-current assets	2,272,088	124,884	3,272	5,209	(98,404)	2,307,049
Total assets	3,624,653	204,801	230,263	88,055	(273,969)	3,873,803
Liabilities and shareholders' equity						
Current liabilities:						
Trade accounts payable	102,960	4,992	807	-	-	108,759
Bank customer accounts	-	-	50,879	-	-	50,879
Amounts payable to related parties	40,999	9,321	149,994	4	(157,778)	42,540
Income taxes payable	5,395	480	92	-	-	5,967
Other taxes and social security payable	16,084	1,222	294	32	-	17,632
Deferred income	2,101	-	-	-	-	2,101
Debt finance	174,246	12,947	20	6,066	(7,191)	186,088
Lease liabilities	251	-	-	-	(5)	246
Dividends payable	39,481	-	-	-	-	39,481
Other current liabilities	109,260	4,995	165	13,277	-	127,697
Total current liabilities	490,777	33,957	202,251	19,379	(164,974)	581,390
Non-current liabilities:						
Debt finance	342,917	-	-	-	-	342,917
Lease liabilities	447	-	-	-	-	447
Deferred tax liabilities	229,857	10,615	(365)	7,765	(229)	247,643
Other non-current liabilities	24,437	7,390	-	16,683	(8,966)	39,544
Total non-current liabilities	597,658	18,005	(365)	24,448	(9,195)	630,551
Minority interest	25,158	25,590	324	-	9,387	60,459
Shareholders' equity:						
Share capital	3,311,129	-	34,807	8,952	(43,759)	3,311,129
Additional paid in capital	-	72,887	-	200	(73,087)	-
Revaluation reserve	728,467	-	-	-	-	728,467
Accumulated deficit	(1,528,536)	54,362	(6,754)	35,076	7,659	(1,438,193)
Total shareholders' equity	2,511,060	127,249	28,053	44,228	(109,187)	2,601,403
Total liabilities and shareholders' equity	3,624,653	204,801	230,263	88,055	(273,969)	3,873,803

(Amounts expressed in thousands of US dollars)

37. Segmental information

	Steel segment	Metalware segment	Financing segment	Insurance segment	Inter segment balances	Consolidated
Segmental balance sheets as at December 31, 2002						
Assets						
Current assets:						
Cash and cash equivalents	183,725	2,378	7,095	24,430	(28,231)	189,397
Central bank reserves	-	-	2,520	-	-	2,520
Banking assets	-	-	39,116	-	(58)	39,058
Trade accounts receivable	115,237	8,711	340	-	-	124,288
Inventories	231,800	15,967	52	26	(1,028)	246,817
Amounts receivable from related parties	42,291	1,130	1,024	12,949	(15,742)	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	6	-	458	-	(48)	416
Financial assets	300,413	90	10,860	19,058	(94)	330,327
Total current assets	1,007,388	35,148	62,057	58,382	(45,201)	1,117,774
Non-current assets:						
Lease receivables	7	-	168	-	(14)	161
Financial assets	137,349	1,325	356	2,487	(34,268)	107,249
Investment in associates	7,665	5,517	-	-	(5,352)	7,830
Property, plant and equipment	1,886,911	67,320	1,702	2,311	-	1,958,244
Intangible assets	-	-	197	-	-	197
Total non-current assets	2,031,932	74,162	2,423	4,798	(39,634)	2,073,681
Total assets	3,039,320	109,310	64,480	63,180	(84,835)	3,191,455
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	34,008	4,115	31,436	31	(35,739)	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	87,089	5,520	-	5	(58)	92,556
Lease liabilities	686	51	-	-	(48)	689
Dividends payable	564	-	-	-	-	564
Other current liabilities	79,123	2,244	198	2,990	-	84,555
Total current liabilities	349,614	15,156	39,276	3,430	(35,845)	371,631
Non-current liabilities:						
Debt finance	83,739	-	57	-	-	83,796
Lease liabilities	527	118	-	-	(14)	631
Deferred tax liabilities	271,909	7,304	337	6,530	(633)	285,447
Other non-current liabilities	31,495	6,793	-	20,786	(9,534)	49,540
Total non-current liabilities	387,670	14,215	394	27,316	(10,181)	419,414
Minority interest	4,195	22,076	192	-	8,051	34,514
Shareholders' equity:						
Share capital	3,311,129	-	34,807	8,952	(43,759)	3,311,129
Additional paid in capital	136	15,343	-	200	(15,543)	136
Treasury shares	-	-	(28)	-	28	-
Revaluation reserve	832,048	-	-	-	-	832,048
Accumulated deficit	(1,845,472)	42,520	(10,161)	23,282	12,414	(1,777,417)
Total shareholders' equity	2,297,841	57,863	24,618	32,434	(46,860)	2,365,896
Total liabilities and shareholders' equity	3,039,320	109,310	64,480	63,180	(84,835)	3,191,455

(Amounts expressed in thousands of US dollars)

37. Segmental information

	Steel segment		Metalware segment	Financing segment	Insurance segment	Inter segment transactions	Consolidated
	Russia	USA					
Segmental statements of operations, year ended December 31, 2004							
Sales							
Sales - external	4,415,797	1,332,733	520,265	-	-	-	6,268,795
Sales - to related parties	672,641	10,563	45,356	-	-	(349,426)	379,134
	5,088,438	1,343,296	565,621	-	-	(349,426)	6,647,929
Cost of sales	(2,675,730)	(1,201,880)	(488,074)	-	-	343,129	(4,022,555)
Gross profit	2,412,708	141,416	77,547	-	-	(6,297)	2,625,374
Indirect taxes and contributions	(21,961)	(19)	(2,759)	(149)	(75)	-	(24,963)
Selling, general and administration expenses	(205,667)	(20,390)	(34,007)	(2,468)	(5,219)	21,574	(246,177)
Distribution expenses	(418,658)	-	(18,876)	-	-	2,723	(434,811)
Net other operating expenses	(59,784)	646	(227)	1,403	573	(168)	(57,557)
Net expenses with insurance operations	-	-	-	-	6,217	(24,454)	(18,237)
Net income from banking operations	-	-	-	4,465	-	(202)	4,263
Net expenses from securities operations	-	-	-	2,239	(2,176)	25,767	25,830
Profit from operations	1,706,638	121,653	21,678	5,490	(680)	18,943	1,873,722
Net non-operating expenses	32,980	-	(2,667)	(79)	(32,862)	(817)	(3,445)
Impairment of property, plant and equipment	(15,764)	-	(302)	-	-	-	(16,066)
Negative goodwill	-	57,143	3,934	-	-	197	61,274
Share of associates income	288	6,907	1,245	-	282	(1,564)	7,158
Profit before financing and taxation	1,724,142	185,703	23,888	5,411	(33,260)	16,759	1,922,643
Net financing (expense)/income	(456)	(5,799)	(2,238)	-	5,961	(29,972)	(32,504)
Profit before income tax	1,723,686	179,904	21,650	5,411	(27,299)	(13,213)	1,890,139
Income tax expense	(428,099)	(43,966)	(9,728)	(1,380)	(1,496)	3,047	(481,622)
Profit for the year	1,295,587	135,938	11,922	4,031	(28,795)	(10,166)	1,408,517
Profit attributable to minorities	(5,145)	-	(588)	11	(1)	(1,615)	(7,338)
Profit attributable to shareholders	1,290,442	135,938	11,334	4,042	(28,796)	(11,781)	1,401,179

(Amounts expressed in thousands of US dollars)

37. Segmental information

	Steel segment	Metalware segment	Financing segment	Insurance segment	Inter segment transactions	Consolidated
Segmental statements of operations, year ended December 31, 2003						
Sales						
Sales - external	2,667,978	253,254	-	-	-	2,921,232
Sales - to related parties	424,565	23,141	-	-	(165,054)	282,652
	3,092,543	276,395	-	-	(165,054)	3,203,884
Cost of sales	(1,837,109)	(232,304)	-	-	160,528	(1,908,885)
Gross profit	1,255,434	44,091	-	-	(4,526)	1,294,999
Indirect taxes and contributions	(16,053)	(2,119)	(1,115)	(56)	-	(19,343)
Selling, general and administration expenses	(166,318)	(16,999)	(819)	(3,657)	24,399	(163,394)
Distribution expenses	(304,484)	(11,157)	-	-	687	(314,954)
Net other operating expenses	(6,732)	7	2,060	846	-	(3,819)
Net expenses with insurance operations	-	-	-	8,968	(23,265)	(14,297)
Net income from banking operations	-	-	1,891	-	8	1,899
Net expenses from securities operations	27,959	-	1,853	225	690	30,727
Profit from operations	789,806	13,823	3,870	6,326	(2,007)	811,818
Net non-operating expenses	(19,858)	(988)	-	-	-	(20,846)
Impairment of property, plant and equipment	(4,399)	(1,014)	-	-	-	(5,413)
Impairment of goodwill	(10,548)	-	-	-	-	(10,548)
Negative goodwill	-	5,544	-	-	(445)	5,099
Share of associates income	70	359	-	415	(1,124)	(280)
Profit before financing and taxation	755,071	17,724	3,870	6,741	(3,576)	779,830
Net financing (expense)/income	(21,094)	(783)	-	8,540	(8)	(13,345)
Profit before income tax	733,977	16,941	3,870	15,281	(3,584)	766,485
Income tax expense	(155,751)	(2,426)	(331)	(3,487)	(404)	(162,399)
Profit for the year	578,226	14,515	3,539	11,794	(3,988)	604,086
Profit attributable to minorities	(3,999)	(1,583)	(132)	-	(1,857)	(7,571)
Profit attributable to shareholders	574,227	12,932	3,407	11,794	(5,845)	596,515

(Amounts expressed in thousands of US dollars)

37. Segmental information

	Steel segment	Metalware segment	Mining segment	Financing segment	Insurance segment	Inter segment transactions	Consolidated
Segmental statements of operations, year ended December 31, 2002							
Sales							
Sales - external	1,878,180	163,193	5,129	-	-	-	2,046,502
Sales - to related parties	316,962	10,381	39,842	-	-	(138,507)	228,678
	2,195,142	173,574	44,971	-	-	(138,507)	2,275,180
Cost of sales	(1,464,123)	(142,786)	(37,369)	-	-	138,267	(1,506,011)
Gross profit	731,019	30,788	7,602	-	-	(240)	769,169
Indirect taxes and contributions	(34,612)	(2,591)	(87)	(317)	(53)	-	(37,660)
Selling, general and administration expenses	(115,256)	(12,934)	(4,841)	(3,575)	(2,462)	33,210	(105,858)
Distribution expenses	(271,369)	(6,725)	(1,268)	-	-	-	(279,362)
Net other operating expenses	(33,514)	(76)	438	667	613	6,088	(25,784)
Net expenses with insurance operations	-	-	-	-	8,830	(27,186)	(18,356)
Net income from banking operations	-	-	-	3,208	-	(593)	2,615
Net expenses from securities operations	(15,501)	-	1,161	1,357	907	(149)	(12,225)
Profit from operations	260,767	8,462	3,005	1,340	7,835	11,130	292,539
Net non-operating expenses	19,661	(1,260)	(447)	-	-	(39,992)	(22,038)
Impairment of property, plant and equipment	(9,819)	(216)	(1,011)	-	-	-	(11,046)
Negative goodwill	687	5,346	-	-	-	742	6,775
Share of associates income	(100)	285	(5,163)	-	(821)	633	(5,166)
Profit before financing and taxation	271,196	12,617	(3,616)	1,340	7,014	(27,487)	261,064
Net financing income/(expense)	(18,489)	(1,763)	(142)	-	1,722	593	(18,079)
Profit before income tax	252,707	10,854	(3,758)	1,340	8,736	(26,894)	242,985
Income tax expense	(62,554)	(4,223)	5,862	(630)	(908)	671	(61,782)
Profit for the year	190,153	6,631	2,104	710	7,828	(26,223)	181,203
Profit attributable to minorities	(572)	(355)	-	141	-	377	(409)
Profit attributable to shareholders	189,581	6,276	2,104	851	7,828	(25,846)	180,794