Severstal-auto Group

Consolidated Financial Statements

31 December 2002

Contents

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AUDITORS' REPORT

To the shareholders JSC Severstal-auto:

1. We have audited the accompanying consolidated balance sheet of JSC Severstal-auto (the "Company") and its subsidiaries (the "Group") as of 31 December 2002 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended, as expressed in the equivalent purchasing power of the Russian Rouble (RR) at 31 December 2002. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our 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.

3. In our opinion, the accompanying consolidated financial statements, expressed in the equivalent purchasing power of the Russian Rouble at 31 December 2002, present fairly, in all material respects, the financial position of the Group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. As explained in Note 2, US dollar (US$) amounts presented in the consolidated financial statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2002 of RR 31.78 to US$ 1. The US$ amounts are presented solely for the convenience of the reader and should not be construed as a representation that the RR amounts have been or could have been converted to US$ at this rate, nor that the US$ amounts present fairly the financial position of the Group or its results of operations or cash flows in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russia
15 September 2003

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(in millions of Russian Roubles, Note 2)

		RR million		Unaudited US$ thousand	
		At 31 December		At 31 December	
	Note	**2002**	**2001**	**2002**	**2001**
ASSETS					
Current assets:					
Cash and cash equivalents	5	193	209	6,073	6,576
Available-for-sale investments	10	192	29	6,042	913
Accounts receivable and prepayments	6	1,144	1,729	35,997	54,405
Inventories	7	2,428	2,555	76,400	80,396
Total current assets		**3,957**	**4,522**	**124,512**	**142,290**
Non-current assets:					
Property, plant and equipment	8	8,837	8,789	278,068	276,558
Goodwill	9	1,184	1,277	37,256	40,183
Available-for-sale investments	10	51	52	1,605	1,636
Other assets		20	21	629	662
Total non-current assets		**10,092**	**10,139**	**317,558**	**319,039**
Total assets		**14,049**	**14,661**	**442,070**	**461,329**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable		1,023	1,039	32,190	32,694
Taxes payable	15	441	482	13,877	15,167
Provision for warranties	12	102	111	3,210	3,493
Short-term borrowings	13	1,290	2,302	40,592	72,435
Advances received and accrued expenses	11	802	916	25,236	28,823
Total current liabilities		**3,658**	**4,850**	**115,105**	**152,612**
Non-current liabilities:					
Long-term borrowings	14	1,352	1,117	42,542	35,148
Long-term taxes payable	15	439	1,192	13,814	37,508
Deferred tax liability	24	1,214	1,156	38,199	36,375
Other long-term liabilities		-	89	-	2,801
Total non-current liabilities		**3,005**	**3,554**	**94,555**	**111,832**
Total liabilities		**6,663**	**8,404**	**209,660**	**264,444**
Minority interest	25	**3,045**	**2,433**	**95,815**	**76,558**
Shareholders' equity:	17				
Share capital		377	377	11,863	11,863
Share premium		2,885	2,885	90,780	90,780
Additional paid-in capital		1,019	1,019	32,064	32,064
Retained earnings/(losses)		60	(457)	1,888	(14,380)
Total shareholders' equity		**4,341**	**3,824**	**136,595**	**120,327**
Total liabilities and shareholders' equity		**14,049**	**14,661**	**442,070**	**461,329**

General Director
V.A. Shvetsov

Chief Accountant
Y.K. Kazemirchuk

15 September 2003

(in millions of Russian Roubles, Note 2)

		RR million		Unaudited US$ thousand	
		Year ended 31 December		Year ended 31 December	
	Note	2002	2001	2002	2001
Sales	18	15,366	14,669	483,512	461,580
Cost of sales	19	(12,507)	(13,102)	(393,549)	(412,272)
Gross profit		**2,859**	**1,567**	**89,963**	**49,308**
Distribution costs	20	(451)	(280)	(14,191)	(8,811)
General and administrative expenses	21	(1,502)	(1,377)	(47,262)	(43,329)
Research and development expenses		(12)	(58)	(378)	(1,825)
Other operating income/(expenses)	22	40	(37)	1,259	(1,164)
Operating income/(loss)		**934**	**(185)**	**29,391**	**(5,821)**
Interest expense, net		(600)	(547)	(18,880)	(17,212)
Net foreign exchange gain/(loss)		8	(1)	252	(31)
Monetary gain	2	619	1,060	19,478	33,354
Gains on restructuring of tax debts and other payables	16	599	1,959	18,848	61,643
Gain from change of fair value of available-for-sale investments		7	3	220	94
Income before taxation		**1,567**	**2,289**	**49,309**	**72,027**
Income tax (expense)/credit	24	(409)	52	(12,870)	1,636
Income after taxation		**1,158**	**2,341**	**36,439**	**73,663**
Minority interest	25	(612)	(1,383)	(19,257)	(43,518)
Net income		**546**	**958**	**17,182**	**30,145**
Weighted average number of shares outstanding during the year (thousands)	17	22,074	22,074	22,074	22,074
Earnings per share (in RR and US$)	26	24.73	43.40	0.78	1.37

(in millions of Russian Roubles, Note 2)

		RR million		Unaudited US$ thousand	
		Year ended 31 December		Year ended 31 December	
	Note	**2002**	**2001**	**2002**	**2001**
Cash flows from operating activities					
Income before taxation		**1,567**	**2,289**	**49,309**	**72,027**
Adjustments for:					
Depreciation	8	539	525	16,960	16,520
Provision for impairment of receivables		4	34	126	1,070
Gains on restructuring of tax debts and other payables	16	(599)	(1,959)	(18,848)	(61,643)
Goodwill amortisation	22	93	93	2,926	2,926
Interest expense		600	547	18,880	17,212
Provisions for warranties	12	(9)	(18)	(283)	(566)
Inflation effect on non-operating items		(210)	(42)	(6,608)	(1,322)
Operating cash flows before working capital changes		**1,985**	**1,469**	**62,462**	**46,224**
Decrease in accounts receivable and prepayments		478	284	15,041	8,936
Decrease in inventories		127	614	3,996	19,320
Decrease (increase) in available-for-sale investments		(158)	56	(4,972)	1,762
Increase (decrease) in accounts payable, advances received and accrued expenses		(115)	(1,067)	(3,619)	(33,575)
Increase (decrease) in taxes payable, other than income		37	(1,392)	1,164	(43,801)
Cash provided from/(used in) operations		**2,354**	**(36)**	**74,072**	**(1,134)**
Income taxes paid		(410)	(303)	(12,901)	(9,534)
Interest paid		(291)	(272)	(9,157)	(8,559)
Net cash provided from/(used in) operating activities		**1,653**	**(611)**	**52,014**	**(19,227)**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(553)	(211)	(17,400)	(6,639)
Proceeds from the sale of property, plant and equipment		1	-	31	-
Purchase of available-for-sale investments		-	(29)	-	(913)
Proceeds from the sale of available-for-sale investments		8	17	252	535
Net cash used in investing activities:		**(544)**	**(223)**	**(17,117)**	**(7,017)**
Cash flows from financing activities:					
Proceeds from borrowings		4,767	4,541	150,000	142,889
Repayment of borrowings and long-term taxes payable		(6,049)	(3,793)	(190,339)	(119,352)
Effect of inflation on financing activities		256	253	8,055	7,961
Dividends paid		(29)	(11)	(913)	(346)
Net cash provided from/(used in) financing activities		**(1,055)**	**990**	**(33,197)**	**31,152**
Effect of inflation on cash		(70)	(215)	(2,203)	(6,765)
Net decrease in cash and cash equivalents		**(16)**	**(59)**	**(503)**	**(1,857)**
Cash and cash equivalents at the beginning of the period		**209**	**268**	**6,576**	**8,433**
Cash and cash equivalents at the end of the period	5	**193**	**209**	**6,073**	**6,576**

(in millions of Russian Roubles, Note 2)

	Share capital	Share premium	Additional paid-in-capital	Retained earnings/ (losses)	Total shareholders' equity
Balance at 31 December 2000	**377**	**2,885**	**799**	**(1,404)**	**2,657**
Dividends	-	-	-	(11)	(11)
Contribution from shareholders (Note 14)	-	-	220	-	220
Net income for the year	-	-	-	958	958
Balance at 31 December 2001	**377**	**2,885**	**1,019**	**(457)**	**3,824**
Dividends	-	-	-	(29)	(29)
Net income for the year	-	-	-	546	546
Balance at 31 December 2002	**377**	**2,885**	**1,019**	**60**	**4,341**

	Share capital	Share premium	Additional paid-in-capital	Retained earnings/ (losses)	Total shareholders' equity
Unaudited					
US$ thousand					
Balance at 31 December 2001	**11,863**	**90,780**	**32,064**	**(14,380)**	**120,327**
Balance at 31 December 2002	**11,863**	**90,780**	**32,064**	**1,888**	**136,595**

1 The Severstal-auto Group and its operations

JSC "Severstal-auto" (the "Company") and its subsidiaries' (the "Group") principal activities include the manufacture and sale of passenger automobiles, light trucks and minibuses and engines. The Group's manufacturing facilities are primarily based in the City of Ulyanovsk and the Nizhny Novgorod Region in Russia.

JSC "Severstal-auto" was incorporated as an open joint stock company in the Russian Federation in May 2002 by JSC Severstal (the predecessor) by contributing its controlling interests in JSC "UAZ" and JSC "ZMZ", which were acquired through purchases in 2000, in exchange for the Company's share capital. These combinations have been treated as transaction under common control as described in Note 3.1 below. Subsequently during 2002 shares of the Company were distributed to shareholders of JSC Severstal.

All companies of the Group are incorporated under the Laws of the Russian Federation. At 31 December 2002 the Group employed 41,153 employees (31 December 2001: 43,336). The registered office of the Company is pr. Pobedy, 33, Cherepovets, Vologda Region, 162614, Russian Federation.

2 Basis of presentation of the financial statements

These consolidated financial statements have been prepared in accordance with, and comply with International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the IASB.

Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investments are shown at fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to the fair value of financial instruments, the impairment provisions, deferred profits taxes, warranty provision, vacation accrual and the provision for impairment of receivables. Actual results could differ from these estimates.

Accounting for the effect of inflation

The adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation include the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Corresponding figures, for the year ended 31 December 2001, have also been restated for the changes in the general purchasing power of the RR at 31 December 2002.

(in millions of Russian Roubles, Note 2)

2 Basis of presentation of the financial statements (continued)

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Year	Indices	Conversion Factor
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

The main guidelines followed in restating the financial statements are:

- All amounts, including corresponding figures, are stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that are not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity are restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to the balance sheet date;
- All items in the statement of operations and cash flows are restated by applying the change in the general price index from the dates when the items were initially transacted to the balance sheet date; and
- Gains or losses that arise as a result of holding monetary assets and liabilities for the period are included in the statement of operations as a monetary gain or loss.

U.S. Dollar Translation

U.S. dollar ("US$") amounts shown in the accompanying consolidated financial statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2002 of RR 31.78 = US$1. The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

3 Summary of significant accounting policies

3.1 Group accounting

Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3 Summary of significant accounting policies (continued)

Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the predecessor. Related goodwill inherent in the predecessor's original acquisition is also recorded in these financial statements.

These financial statements, including corresponding figures, are presented as if the subsidiary had been accounted for under the purchase method from the date it was originally acquired by the predecessor.

3.2 Investments

The Group has classified investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, as available-for-sale. These are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of operations in the period in which they arise.

3.3 Cash and cash equivalents

Cash comprises cash on hand and cash held on demand with banks. Cash equivalents comprise short-term investments which are readily converted to cash, are not subject to significant risk of changes in value and mature within three months of the balance sheet date.

3.4 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and includes value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(in millions of Russian Roubles, Note 2)

3 Summary of significant accounting policies (continued)

3.5 Value added tax

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a net basis and disclosed separately from the actual VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

3.6 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Provision is made for potential losses on obsolete or slow-moving inventories taking into account their expected use and future realisable value.

3.7 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	35 to 45
Plant and machinery	15 to 25
Other	5 to 12

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

3.8 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisition of subsidiary undertakings is included in intangible assets. Goodwill is amortised using the straight-line method over its estimated useful life of 15 years.

At each reporting date management assesses whether there is any indication of impairment of goodwill. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations.

3 Summary of significant accounting policies (continued)

3.9 Borrowings and restructured taxes

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. All borrowing costs are expensed. Interest expense, which is currently due, is recorded within other payables, whilst other interest that accrues is included within the borrowings themselves.

3.10 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.11 Foreign currency transactions

Monetary assets and liabilities, which are held by Group entities and denominated in any currency other than RR (i.e. foreign currencies) at 31 December 2002, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of operations.

At 31 December 2002, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (US$) 1=RR 31.78 (31 December 2001: US$ 1= RR 30.14). Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Group recognises the estimated liability to repair or replace products sold but that are still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements. Estimated costs of future product warranties are fully provided for at the time of the sale of products.

3.13 Shareholders' equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

3 Summary of significant accounting policies (continued)

3.13 Shareholders' equity (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.14 Revenue recognition

Revenues on sales of vehicles, engines, automotive components and other products are recognised when they are dispatched to customers as this is the date that the risks and rewards of ownership are transferred to the customers.

Sales are shown net of VAT and discounts, and after eliminating sales within the Group.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

3.15 Employee benefits

Social costs

The Group incurs employee costs related to the provision of benefits such as health services and recreational activities. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to other operating expenses in the statement of operations.

Pension costs

In the normal course of business Group companies contribute to the Russian Federation state pension scheme on behalf of their employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of operations, however, separate disclosures are not provided as these costs are not significant.

3.16 Earnings per share

An earnings per share is determined by dividing the net income attributable to ordinary shareholders by the weighted average number of participating shares outstanding during the reporting year.

3.17 Non-cash settlements

Non-cash settlements include 'veksels' or 'bills of exchange', which are negotiable debt obligations. Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions.

The Group also accepts bills of exchange from its customers (both issued by customers and third parties) as settlements of receivables. Bills of exchange issued by customers are recognised as accounts receivable originated by the Group, bills of exchange issued by the third parties are recognised as available-for-sale investments. Bills of exchange recognised as receivables originated by the Group are carried at the fair value of the consideration given which is determined using the prevailing market rate of interest for a similar instrument. In subsequent periods, such bills of exchange are stated at amortised cost using the effective yield method. A provision for impairment of such bills of exchange is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the bills of exchange.

(in millions of Russian Roubles, Note 2)

4 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The transactions with related parties noted below are made in the ordinary course of business on normal commercial terms, except for interest-free borrowings received from/provided to Severstal Group companies.

Balances and transactions with related parties of the Group as at and for the years ended 31 December 2002 and 2001 consist of the following:

4.1 Balances with related parties:

Balance sheet caption	Relationship	**2002**	**2001**
Trade receivables, gross:	Severstal Group companies	42	61
Borrowings issued:	Severstal Group companies	24	-
Borrowings received:	Severstal Group companies	1,601	1,754
Trade payables current:	Severstal Group companies	87	118

4.2 Transactions with related parties:

Statement of operations caption	Relationship	**2002**	**2001**
Sales:	Severstal Group companies	77	268
Purchases:	Severstal Group companies	652	708

4.3 Directors' compensation:

Compensation paid to directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results.

Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees' meetings were not paid.

Total directors' compensation included in general and administrative expenses in the statement of operations amounted to RR 7 for the year ended 31 December 2002 (2001: RR 5).

5 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2002	**2001**
RR denominated cash on hand and balances with banks	56	14
Foreign currency denominated balances with banks	132	2
Short-term bank bills of exchange	5	193
	193	**209**

(in millions of Russian Roubles, Note 2)

5 Cash and cash equivalents (continued)

Foreign currency denominated balances with bank consist of the following:

Currency	2002	2001
Euro	101	2
US$	31	-
	132	**2**

6 Accounts receivable and prepayments

	2002	2001
Trade receivables (net of provision for impairment of RR 24 and RR 27 as at 31 December 2002 and 2001, respectively)	495	678
Advances to suppliers (net of provision for impairment of RR 12 and RR 15 as at 31 December 2002 and 2001, respectively)	213	223
Other receivables (net of provision for impairment of RR 12 and RR 13 as at 31 December 2002 and 2001, respectively)	249	505
VAT recoverable	187	323
	1,144	**1,729**

Included within VAT recoverable is RR 100 of deferred VAT payable (2001: RR 91).

RR 66 and RR 47 of net trade receivables are denominated in foreign currency, mainly in US$, at 31 December 2002 and 2001, respectively.

7 Inventories

Inventories consist of the following:

	2002	2001
Raw materials	1,855	1,575
Work in progress	474	456
Finished products	303	696
Obsolescence provision	(204)	(172)
	2,428	**2,555**

Inventories of RR 1,017 (2001: RR 1,804) have been pledged as security for borrowings.

As at 31 December 2002 and 2001 finished goods of RR nil and RR 438 are recorded at net realisable value, respectively.

(in millions of Russian Roubles, Note 2)

8 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land and buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2000	4,448	3,766	402	558	9,174
Additions	-	-	-	241	241
Disposals	-	(22)	(15)	-	(37)
Transfers	115	249	23	(387)	-
Balance at 31 December 2001	**4,563**	**3,993**	**410**	**412**	**9,378**
Additions	-	-	-	589	589
Disposals	(1)	(16)	(15)	-	(32)
Transfers	64	357	58	(479)	-
Balance at 31 December 2002	**4,626**	**4,334**	**453**	**522**	**9,935**
Accumulated Depreciation					
Balance at 31 December 2000	(34)	(57)	(10)	-	(101)
Depreciation expense for 2001	(177)	(298)	(49)	-	(524)
Disposals	-	22	14	-	36
Balance at 31 December 2001	**(211)**	**(333)**	**(45)**	**-**	**(589)**
Depreciation expense for 2002	(179)	(305)	(55)	-	(539)
Disposals	1	15	14	-	30
Balance at 31 December 2002	**(389)**	**(623)**	**(86)**	**-**	**(1,098)**
Net Book Value					
Balance at 31 December 2000	4,414	3,709	392	558	9,073
Balance at 31 December 2001	**4,352**	**3,660**	**365**	**412**	**8,789**
Balance at 31 December 2002	**4,237**	**3,711**	**367**	**522**	**8,837**

Bank borrowings are secured on properties as at 31 December 2002 to the value of RR 1,290 (2001: RR 826); see Note 13.

The assets transferred to JSC "UAZ" and JSC "ZMZ" upon privatisation did not include the land on which factories and buildings, comprising principal manufacturing facilities of the Group, are situated. In 2000-2001 JSC "UAZ" and JSC "ZMZ" purchased this land from the Property Funds of the Ulyanovsk Region and Nizhniy Novgorod Region, respectively. At 31 December 2002 cost of the land amounts to RR 896.

(in millions of Russian Roubles, Note 2)

9 Goodwill

	JSC "UAZ"	JSC "ZMZ"	Total
<u>**Cost**</u>			
Balance at 31 December 2000	1,051	319	1,370
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2001	**1,051**	**319**	**1,370**
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2002	**1,051**	**319**	**1,370**
<u>**Accumulated Amortisation**</u>			
Balance at 31 December 2000	-	-	-
Amortisation charge for 2001	(72)	(21)	(93)
Disposals	-	-	-
Balance at 31 December 2001	**(72)**	**(21)**	**(93)**
Amortisation charge for 2002	(72)	(21)	(93)
Disposals	-	-	-
Balance at 31 December 2002	**(144)**	**(42)**	**(186)**
<u>**Net Book Value**</u>			
Balance at 31 December 2000	1,051	319	1,370
Balance at 31 December 2001	**979**	**298**	**1,277**
Balance at 31 December 2002	**907**	**277**	**1,184**

10 Available-for-sale investments

Available-for-sale short-term investments mainly represents veksels of third parties received from customers as payment for goods or services provided. They have a turnover period of less than a year and have been used for further settlements for electricity and supply of components.

During 2002 and 2001 the following movements in long-term available-for-sale investments took place:

	2002	2001
Balance at 1 January	**52**	**20**
Additions	-	34
Gain from change of fair value	7	3
Disposals	(8)	(5)
Balance at 31 December	**51**	**52**

Available-for-sale long-term investments comprise principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee.

(in millions of Russian Roubles, Note 2)

11 Advances received and accrued expenses

	2002	2001
Advances from customers	231	237
Vacation accrual	199	155
Salaries payable	199	190
Payables to "Rosreserve"	107	155
Dividends payable	4	5
Other	62	174
	802	**916**

Rosreserve

Between 1996 and 2000, due to cash shortages, JSC "ZMZ" (ZMZ) used metal owned by Privolzhskiy regional department of Russian Federal Reserve Agency ("Rosreserve"), which was kept at ZMZ's warehouse, without prior consent. During this period the Group recorded a liability equal to fair value of metal used. On 31 August 2001 ZMZ signed an agreement with "Rosreserve" to defer payments of RR 359 of principal liability and also has accepted fines and penalties at net present value of RR 32 due in monthly instalments up to 20 August 2003.

Maturity profile of the payable to "Rosreserve" is as follows:

	2002	2001
Current	107	155
Long-term	-	90
	107	**245**

The difference between the recorded and net present value of the restructured liabilities was credited to the statement of operations in the corresponding period (see Note 16).

	2002	2001
Balance at 1 January	245	597
Paid in cash and metal returned	(172)	(277)
Gain on restructuring of accounts payable to "Rosreserve"	-	(96)
Interest and penalties expenses	34	20
Extra metal taken in 2001	-	1
Balance at 31 December	**107**	**245**

Included in Advances received and accrued expenses at 31 December 2001 was a balance of RR 174 related to old payables that JSC "UAZ" incurred between the late 1980s and 1999. In 2002, after completing the required period of three years under Russian law, JSC "UAZ" wrote off the payables resulting in a gain of RR 174 (see Note 22).

In the year ended 31 December 2002 approximately 11% (2001: 15%) of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements. Non-cash settlements represent mainly settlements with suppliers for supplied components by means of veksels.

12 Provision for warranties

During 2002 and 2001 the following movements of the warranty provision took place:

	Warranty
Balance at 31 December 2000	**129**
Additional provision	111
Utilised in the year	(129)
Balance at 31 December 2001	**111**
Additional provision	102
Utilised in the year	(111)
Balance at 31 December 2002	**102**

(in millions of Russian Roubles, Note 2)

12 Provision for warranties (continued)

The Group gives one-year warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 102 (2001: RR 111) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and replacements.

13 Short-term borrowings

Short-term borrowings may be analysed as follows:

	2002	2001
Short-term borrowings (including current portion of long-term borrowings)	**1,290**	**2,302**

Short-term debt comprises a total of rouble-denominated loans at fixed interest rates of 16.0% and 21.0% on average for the years ended 31 December 2002 and 2001, respectively.

As at 31 December 2002 and 2001 loans for RR 1,003 and RR 1,349 respectively, inclusive of short-term borrowings, are guaranteed by collateral of inventories and equipment.

14 Long-term borrowings

Long-term debt consists of promissory notes held by Severstal Group amounting to RR 1,154 at 31 December 2002 (2001: RR 1,117).

Long-term debt is repayable as follows:

	2002	2001
1 to 2 years	1,154	-
2 to 3 years	-	1,117
3 to 4 years	198	-
	1,352	**1,117**

During 2000 JSC "UAZ" received a long-term rouble-denominated interest-free loan from Severstal Group in the amount of RR 1,594. This loan was recorded at cost, which is the fair value of proceeds received. The fair value of the proceeds received calculated using the discounted cash flows method, at a 22.0% discount rate, is RR 795. The resulting discount was credited to equity (additional paid-in capital) as a contribution by shareholders.

In 2001 JSC "UAZ" received an additional long-term rouble-denominated interest-free loan from Severstal Group in the amount of RR 540. This loan was recorded at cost, which is the fair value of proceeds received. The fair value of the proceeds received calculated using the discounted cash flows method, at a 19.0% discount rate, is RR 320. The resulting discount was credited to equity (additional paid-in capital) as a contribution by shareholders. The increase in the carrying amount of the debt in subsequent years will be recognized in the statement of operations as interest expense.

As at 31 December 2002, fair value of this long-term debt was estimated to be RR 1,384 using a current market interest rate of 17.1%. As at 31 December 2001, carrying value of these liabilities approximates its fair value.

(in millions of Russian Roubles, Note 2)

15 Taxes payable

Current taxes payable

Current taxes payable are comprised of the following:

	2002	2001
Current portion of taxes restructured to long-term	204	182
Value-added tax	86	37
Payments to the Pension Fund and other social taxes	59	133
Property tax	24	8
Road users' tax	21	21
Income tax	13	54
Tax penalties and interest	7	13
Excise	-	2
Other taxes	27	32
Total	**441**	**482**

The Group had no tax liabilities past due at 31 December 2002 and 2001.

Long-term taxes payable

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of various Government Resolutions including No. 410 dated 23 May 2001 "On making changes and amendments to the Russian Government Resolution No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget"", as described below. The carrying value of this debt and its maturity profile is as follows:

	2002			2001		
	Federal	Regional taxes and other state funds	Total	Federal	Regional taxes and other state funds	Total
Current	79	125	204	39	143	182
1 to 2 years	58	19	77	92	156	248
2 to 3 years	114	7	121	65	72	137
3 to 4 years	11	87	98	132	35	167
4 to 5 years	11	73	84	111	29	140
Thereafter	56	3	59	490	10	500
Total restructured	329	314	643	929	445	1,374
Less: current portion of taxes payable	(79)	(125)	(204)	(39)	(143)	(182)
Long-term portion of restructured taxes	**250**	**189**	**439**	**890**	**302**	**1,192**

(in millions of Russian Roubles, Note 2)

15 Taxes payable (continued)

In the event that the Group companies fail to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, recommend to the Government to cancel the restructuring agreement and call-in the entire liability.

Both JSC “UAZ” and JSC “ZMZ” are in compliance with the terms of the restructuring of the federal, regional and local tax debts at 31 December 2002. Management is confident that these companies will continue to abide by the terms of the restructuring.

As at 31 December 2002, fair value of these liabilities was estimated to be RR 515 using a current market interest rate of 16.3%. As at 31 December 2001, carrying value of these liabilities approximates their fair value.

16 Gains on restructuring of tax debts and other payables

Gains on restructuring of debt credited to the statement of operations comprise:

	2002	2001
Gain on forgiveness of tax debts	599	-
Gain on restructuring of accounts payable to “Rosreserve”	-	96
Gain on restructuring of tax debts	-	1,863
	599	**1,959**

Gain on forgiveness of tax debts
During 2002 a gain was recorded reflecting the forgiveness of the interest previously accrued in excess of the principal debt of RR 599.

Gain on restructuring of accounts payable to “Rosreserve”
As discussed in Note 11, during 2001 management negotiated the restructuring of the liability to “Rosreserve” up to August 2003. This restructuring constituted a substantial modification in terms of the difference between the recorded value of that liability prior to restructuring and the present value of the future cash flows of the restructured liability, using a discount rate of 19%. The difference between the recorded value and net present value of the restructured liability is accounted for as a gain on restructuring of accounts payable to “Rosreserve” and, accordingly, a gain of RR 96 was recognised in the Group’s consolidated statement of operations. As at 31 December 2002 fair value of this liability was RR 111. As at 31 December 2001, carrying value of this liability approximates its fair value.

Gain on restructuring of tax debts
The gain on restructuring of tax debt arises from the application of Resolution of the Russian Government No. 1002 dated 3 September 1999 and certain restructuring agreements which restructure current tax debts by deferring payment of liabilities to the federal and regional tax authorities and the pension and road funds to between 1 and 10 years at zero or preferential interest rates. This restructuring constituted a substantial modification in terms of the difference between the recorded value of the tax liabilities prior to restructuring and fair value of the future cash flows of the restructured liabilities. The difference between the recorded and fair value of the restructured tax liabilities, using a discount rate of 19%, is accounted for as a gain on restructuring of tax debt and, accordingly, a gain of RR 1,863 was included in the net gain on restructuring of tax debts in 2001.

(in millions of Russian Roubles, Note 2)

17 Shareholders' equity

The value of share capital issued and fully paid up consist of the following shares:

	Number of outstanding ordinary shares (thousands)	Share capital, RR	Share premium, RR	Additional paid-in capital, RR	Total share capital, RR
At 31 December 2001	22,074	377	2,885	1,019	4,281
At 31 December 2002	22,074	377	2,885	1,019	4,281

In May 2003, the General Shareholders' Meeting decided to increase the Company's authorised share capital by 60,000,000 ordinary shares with a nominal value per share of RR 12.5.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2002, the current year net statutory loss for the Company as reported in the published annual statutory reporting forms was RR 1.

18 Sales

Sales were as follows:

	2002	2001
Vehicles	7,669	7,555
Engines	4,705	4,101
Automotive components	2,171	2,014
Other sales	821	999
	15,366	**14,669**

19 Cost of sales

The components of cost of sales were as follows:

	2002	2001
Materials and components used	8,778	9,709
Labour costs	2,478	2,217
Depreciation	433	417
Production overheads	498	485
Other	12	79
Change in finished goods and work in progress	308	195
	12,507	**13,102**

(in millions of Russian Roubles, Note 2)

20 Distribution costs

Distribution costs comprise:

	2002	2001
Transportation	280	146
Advertising	44	34
Labour costs	41	31
Materials	36	30
Other	50	39
	451	**280**

21 General and administrative expenses

General and administrative expenses comprise:

	2002	2001
Labour costs	678	486
Taxes (property, road users)	342	315
Services provided by third parties	154	131
Depreciation	106	108
Repairs and maintenance	55	66
Materials	42	49
Training costs	19	19
Transportation	12	7
Provision for impairment of receivables	4	34
Other	90	162
	1,502	**1,377**

22 Other operating (income)/expenses

The components of other operating (income)/expenses were as follows:

	2002	2001
Goodwill amortisation	93	93
Social expenses	55	70
Charity	38	54
Provisions and settlements of claims and similar charges	2	(18)
Sales of materials	(29)	(3)
Write-off of payables	(174)	(16)
Other	(25)	(143)
	(40)	**37**

23 Labour expenses

Labour expenses included in different captions of the statement of operations were as follows:

	2002	2001
Cost of sales	2,478	2,217
Administrative expenses	678	486
Distribution costs	41	31
	3,197	**2,734**

Labour expenses are comprised of wages, salaries, bonuses, payroll taxes, vacation and salary accruals.

(in millions of Russian Roubles, Note 2)

24 Income tax expense/(credit)

	2002	2001
Income tax expense – current	351	322
Deferred tax expense – origination and reversal of temporary differences	58	157
Deferred tax expense/(income) – effect of reduction in tax rate	-	(531)
Income tax expense/(credit)	**409**	**(52)**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2002	2001
Income before taxation	**1,567**	**2,289**
Theoretical tax charge at the statutory rate of 24% (2001: 35%)	376	801
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	47	217
Non-temporary elements of monetary gain	193	147
Gain on restructuring of tax debts	-	(447)
Gain on forgiveness of tax debts	(144)	-
Other	89	(3)
Inflation effect on deferred tax balance at the beginning of the year	(152)	(236)
Effect of reduction in tax rate	-	(531)
Income tax expense/(credit)	**409**	**(52)**

In general during 2002 the Group was subject to tax rates of approximately 24% on taxable profits. A profit tax rate of 24% has been enacted starting from 1 January 2002 as a result of the changes in the Russian tax legislation. Deferred tax assets/liabilities are measured at the rate of 24% as at 31 December 2002 (24% as at 31 December 2001).

	31 December 2000	Movement in the year	Change in tax rate	31 December 2001	Movement in the year	31 December 2002
Tax effects of deductible temporary differences:						
Accounts receivable	59	(65)	3	(3)	36	33
Inventories	(91)	134	(14)	29	(40)	(11)
Accounts payable	274	(332)	18	(40)	137	97
Other long-term liabilities	(280)	318	(12)	26	(54)	(28)
	(38)	**55**	**(5)**	**12**	**79**	**91**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(1,511)	(208)	541	(1,178)	(128)	(1,306)
Investments	16	(4)	(4)	8	(6)	2
Other non-current assets	3	-	(1)	2	(3)	(1)
	(1,492)	**(212)**	**536**	**(1,168)**	**(137)**	**(1,305)**
Total net deferred tax (liability)/assets	**(1,530)**	**(157)**	**531**	**(1,156)**	**(58)**	**(1,214)**

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. The deferred tax assets will be realised in different periods than the deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

(in millions of Russian Roubles, Note 2)

25 Minority interest

	2002	2001
Balance at 1 January	2,433	1,050
Share of net income of subsidiaries	612	1,383
Balance at 31 December	**3,045**	**2,433**

26 Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of shares in issue during the period.

	2002	2001
Weighted average number of shares outstanding (thousands)	**22,074**	**22,074**
Net income	**546**	**958**
Basic/diluted earnings per share (in RR)	**24.73**	**43.40**

27 Contingencies, commitments and operating risks

27.1 Contractual commitments and guarantees

As at 31 December 2002 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 246 (2001: RR 48).

27.2 Taxation

Russian tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

27.3 Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering all production equipment and vehicles owned by JSC "ZMZ", and all events subject to mandatory insurance. No provisions for insurance are included in the accompanying consolidated balance sheet.

27.4 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(in millions of Russian Roubles, Note 2)

27 Contingencies, commitments and operating risks (continued)

27.5 Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

27.6 Operating environment of the Group

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

28 Principal subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by OAO Severstal-auto are as follows:

			2002		2001	
Entity	Country of Incorporation	Activity	% of total share capital	% of ordinary shares	% of total share capital	% of ordinary shares
JSC "UAZ"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	58	61	58	61
JSC "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	47	63	47	63

29 Financial risks

29.1 Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

29 Financial risks (continued)

29.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. The Group has no significant interest-bearing assets.

29.3 Fair values

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

At 31 December 2002 and 2001, the fair value of financial liabilities, which is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments with the same remaining maturity and were disclosed in relevant notes to these financial statements.

30 Post balance sheet events

The Annual General Shareholders' Meeting in 2003 decided not to pay dividends as a result of 2002 activities.

In March 2003 JSC "UAZ" and JSC "ZMZ" each signed an agreement with OOO "Severstal-auto" regarding the transfer to this company of executive management authority and provision of management services by this company. In accordance with these agreements, OOO "Severstal-auto" will receive compensation for management services from both subsidiaries.