

SEVERSTAL

Pro-forma consolidated financial statements
for the year ended December 31, 2001

Severstal

Pro-forma consolidated financial statements for the year ended December 31, 2001

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Independent Auditor's Report

The Board of Directors and Shareholders
OAO Severstal

We have audited the accompanying pro-forma consolidated balance sheet of Severstal and its subsidiaries (the "Group") as of 31 December 2001 and the related pro-forma statements of operations, changes in shareholders' equity and cash flows for the year then ended. These pro-forma consolidated financial statements, as set out on pages 2 to 36, are the responsibility of the Group's management. Our responsibility is to express an opinion on these pro-forma financial statements based on our audit.

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

The accompanying pro-forma consolidated financial statements have been prepared for the purpose of presenting the consolidated financial position, results of operations, changes in shareholders' equity and cash flows of the Group as of 31 December 2001 as if the Group structure that came in place on 16 September 2002 had been in place before 1 January 2000. The basis of preparation of the pro-forma consolidated financial statements is explained in note 2 to these pro-forma consolidated financial statements. These pro-forma consolidated financial statements are not necessarily indicative of the results or related effects on the financial position that would have been attained had the above-mentioned Group structure actually been in place before 1 January 2000.

In our opinion, the pro-forma consolidated financial statements present fairly, in all material respects, the pro-forma financial position of the Group as of 31 December 2001, and the pro-forma results of its operations, changes in shareholders' equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board, adjusted to give effect to the pro-forma Group structure as described in the preceding paragraph.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
7 March 2003



Severstal

Pro-forma consolidated balance sheet
December 31, 2001
(Amounts expressed in thousands of US dollars)
(2000 unaudited)

	<u>Note</u>	December 31	
		2001	2000
Assets			
Current assets:			
Cash and cash equivalents	14	100,796	203,467
Reserves at Central Bank of Russia		4,897	17,717
Banking assets	15	20,737	156,613
Trade accounts receivable	16	95,773	103,885
Inventories	17	247,041	219,360
Amounts receivable from related parties	18	35,593	49,102
VAT recoverable		36,124	28,308
Income tax recoverable		4,136	440
Other current assets	19	104,685	69,058
Lease receivables	20	990	2,072
Financial assets	21	155,383	150,628
Total current assets		806,155	1,000,650
Non-current assets:			
Lease receivables	20	475	1,014
Financial assets	21	168,417	31,378
Intangible assets	23	318	363
Property, plant & equipment	23	2,025,242	2,174,323
Total non-current assets		2,194,452	2,207,078
Total assets		3,000,607	3,207,728
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		92,598	58,832
Bank customer accounts	24	5,617	50,802
Amounts payable to related parties	25	11,645	15,089
Income taxes payable		447	6,940
Other taxes and social security payable		28,165	18,839
Deferred income		5,934	7,424
Debt finance	26	98,444	70,822
Lease liabilities	27	285	74
Dividends payable		19,352	-
Other current liabilities	28	62,612	63,723
Total current liabilities		325,099	292,545
Non-current liabilities:			
Debt finance	26	64,781	40,040
Lease liabilities	27	799	217
Deferred tax liabilities	13	337,134	498,093
Other non-current liabilities	29	40,444	32,921
Total non-current liabilities		443,158	571,271
Minority interest		48,090	44,123
Shareholders' equity:			
Share capital		3,311,129	3,311,129
Treasury shares		-	(213)
Revaluation reserve		949,245	972,921
Accumulated deficit		(2,076,114)	(1,984,048)
Total shareholders' equity		2,184,260	2,299,789
Total liabilities and shareholders' equity		3,000,607	3,207,728

These financial statements were approved by the Board of Directors on March 7, 2003.

The accompanying accounting policies and notes on pages 6 to 36 form an integral part of these pro-forma consolidated financial statements.

Severstal

Pro-forma consolidated statement of operations

Year ended December 31, 2001

*(Amounts expressed in thousands of US dollars, except shares and earnings per share)
(2000 unaudited)*

	<u>Note</u>	Year ended December 31	
		2001	2000
Sales			
Sales - external		1,906,031	2,085,789
Sales - to related parties	19	103,346	162,540
	4	2,009,377	2,248,329
Cost of sales		(1,485,226)	(1,283,160)
Gross profit		524,151	965,169
Indirect taxes & contributions		(36,824)	(44,048)
Selling, general & administration expenses		(95,521)	(59,998)
Distribution expenses		(223,870)	(195,582)
Other operating income	5	9,200	7,689
Other operating expenses	6	(22,899)	(6,108)
Net expenses with insurance operations	8	(8,769)	(7,845)
Net income from banking operations	9	5,577	5,478
Net expenses from securities operations	10	(59,899)	(6,801)
Profit from operations		91,146	657,954
Non-operating expenses	11	(66,571)	(16,734)
Profit before financing and taxation		24,575	641,220
Net financing income	12	1,623	7,722
Profit before income tax		26,198	648,942
Income tax expense	13	(37,571)	(185,229)
(Loss)/profit for the year		(11,373)	463,713
Profit attributable to minorities		(3,968)	(3,997)
(Loss)/profit attributable to shareholders		(15,341)	459,716
Weighted average number of shares outstanding during the year		22,074,192	22,074,192
Basic and diluted earnings per share		(0.69)	20.83

The accompanying accounting policies and notes on pages 6 to 36 form an integral part of these pro-forma consolidated financial statements.

Severstal

Pro-forma consolidated statement of cash flows

Year ended December 31, 2001

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

	Year ended December 31	
	2001	2000
Operating activities:		
Profit before financing and taxation	24,575	641,220
Adjustments to reconcile profit to cash provided by operating activities:		
Depreciation & amortization	201,511	198,531
Asset impairment	282	3,422
Foreign exchange loss/(gain)	14,826	(3,062)
Loss on disposal of property, plant & equipment	20,294	4,121
Loss on disposal of intangible assets	-	1
Profit on disposal of financial assets	(928)	(21)
Write down of financial assets	47,304	2,759
Bank loan loss provisions	31	478
Provision for doubtful accounts receivable	(2,456)	(5,710)
Changes in operating assets and liabilities:		
Reserves at Central Bank of Russia	12,820	(14,673)
Banking assets	135,845	(110,122)
Trade accounts receivable	6,479	(40,046)
Amounts receivable from related parties	13,509	(29,984)
VAT recoverable	(9,556)	(7,510)
Inventories	(27,611)	(81,406)
Lease receivables	1,447	(2,875)
Other current assets	(20,036)	1,104
Financial assets	(6,473)	(117,467)
Trade accounts payable	41,667	(7,165)
Bank customer accounts	(45,185)	22,092
Amounts payable to related parties	(3,444)	(6,674)
Other taxes and social security payable	(9,467)	5,195
Deferred income	(1,088)	(1)
Other current liabilities	(371)	(13,079)
Other non-current liabilities	9,159	3,150
Cash generated from operations	403,134	442,278
Interest received (excluding banking operations)	12,132	16,908
Interest paid (excluding banking operations)	(10,366)	(11,500)
Income tax paid	(117,103)	(240,685)
Net cash provided from operating activities	287,797	207,001
Investing activities:		
Additions to property, plant & equipment	(97,452)	(108,085)
Additions to intangible assets	(64)	(98)
Additions to financial assets	(201,589)	(36,984)
Acquisition of subsidiaries (net of cash)	-	(3,628)
Restructuring loss	(132,751)	-
Proceeds from disposal of property, plant & equipment	10,439	1,227
Proceeds from disposal of financial assets	974	382
Proceeds from disposal of treasury shares	8	-
Cash used for investing activities	(420,435)	(147,186)
Financing activities:		
Proceeds from debt finance	176,223	205,264
Repayment of debt finance	(121,543)	(169,476)
Proceeds from lease finance	2	(1,202)
Repayment of lease finance	791	-
Parent company dividends paid	(24,976)	-
Dividends paid to minorities	(1)	(143)
Cash provided from financing activities	30,496	34,443
Effect of exchange rates on cash and cash equivalents	(529)	(684)
Net (decrease)/increase in cash and cash equivalents	(102,671)	93,574
Cash and cash equivalents at beginning of year	203,467	109,893
Cash and cash equivalents at end of year	100,796	203,467

The accompanying accounting policies and notes on pages 6 to 36 form an integral part of these pro-forma consolidated financial statements.

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Pro-forma consolidated statement of changes in shareholders' equity

Year ended December 31, 2001

(Amounts expressed in thousands of US dollars)

(1999 & 2000 unaudited)

	<u>Share capital</u>	<u>Treasury shares</u>	<u>Revaluation reserve</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balances at December 31, 1999	3,311,129	(213)	1,081,196	(2,537,939)	1,854,173
Realization of revaluation reserve:					
Disposals	-	-	(2,437)	2,437	-
Depreciation	-	-	(132,098)	132,098	-
Deferred tax on realization	-	-	40,360	(40,360)	-
Effect of change in deferred tax rate	-	-	(14,100)	-	(14,100)
Profit attributable to shareholders	-	-	-	459,716	459,716
Balances at December 31, 2000	<u>3,311,129</u>	<u>(213)</u>	<u>972,921</u>	<u>(1,984,048)</u>	<u>2,299,789</u>
Dividends in respect of 2000	-	-	-	(45,561)	(45,561)
Disposal of treasury shares	-	213	-	(205)	8
Realization of revaluation reserve:					
Disposals	-	-	(13,614)	13,614	-
Depreciation	-	-	(133,910)	133,910	-
Deferred tax on realization	-	-	45,732	(45,732)	-
Impairment of property, plant & equipment:					
Impairment	-	-	(13,500)	-	(13,500)
Deferred tax on impairment	-	-	4,185	-	4,185
Effect of change in deferred tax rate	-	-	87,431	-	87,431
Restructuring loss	-	-	-	(132,751)	(132,751)
Loss attributable to shareholders	-	-	-	(15,341)	(15,341)
Balances at December 31, 2001	<u><u>3,311,129</u></u>	<u><u>-</u></u>	<u><u>949,245</u></u>	<u><u>(2,076,114)</u></u>	<u><u>2,184,260</u></u>

The accompanying accounting policies and notes on pages 6 to 36 form an integral part of these pro-forma consolidated financial statements.

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Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

1. Operations

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

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

ZAO Severstal-Garant	43.72%
ZAO Severstal-Group	19.86%
AA Mordashov	16.63%

The Group's principal activities are the production and sale of metallurgical products, banking & finance and insurance. A full segmental analysis of the pro-forma consolidated balance sheet and statement of operations is given in note 36.

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

The Group's international sales of rolled steel have been considered as part 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 pro-forma 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 & equipment; derivative financial instruments; and, available for sale & held for trading securities are stated at fair value. The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these pro-forma consolidated financial statements are set out in note 3.

Going concern basis

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

Severstal

Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

Use of estimates

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

Measurement and presentation currency

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

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

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

Basis of consolidation

These consolidated financial statements have been prepared on a pro-forma basis to reflect the Group as if the group structure that came into place on September 16, 2002 had been in place before January 1, 2000 and are intended to present only the results of the new Group structure. As a result, shares in subsidiaries that have been spun off by way of dividend payment have been excluded from the balance sheet and charged directly to retained earnings in the periods when they were acquired. Additionally, investments disposed of in December 2001 as part of the restructuring have been excluded as if they had been disposed of as at December 31, 1999.

In connection with the restructuring of the Group, shares in subsidiaries that were spun off in 2002 were independently valued, which resulted in losses to the Parent Company. This restructuring loss has been charged directly to retained earnings.

Subsidiaries are those enterprises controlled by the parent company. The financial statements of subsidiaries are included in the pro-forma 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. The pro-forma 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.

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Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the pro-forma 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.

First time application of IFRS

This is the first year in which the Group has applied IFRS as its primary reporting basis.

To obtain initial values for property, plant & equipment American Appraisal Inc was commissioned to independently assess the fair market value of the productive property, plant & equipment at the major entities within the group. Management has estimated the fair value of all other property, plant & equipment within the Group using similar principles to those employed by American Appraisal Inc. Property, plant & equipment has been valued assuming continued use of the facilities. These valuations were rolled back to create a deemed initial value of the Group's property, plant & equipment as at the start of the comparative period for these financial statements.

Goodwill has not been calculated in connection with the acquisition of certain subsidiaries (namely: OAO Cherepovets Steel Rolling Mill - acquired in 1996; OAO Domnaremont - acquired in 1997; and OAO Metallurgremont - acquired in 1995) because, it is expected to be negative and, consequently, would not have any impact on the net profit/(loss), net assets or shareholders' equity presented in these financial statements.

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.

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Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

d. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to US dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to US dollars at the foreign exchange rate ruling at the date of the transaction. An analysis of the foreign exchange differences is given in note 33 of these financial statements.

Financial statements of foreign operations

The operations of the Group's foreign entities are integral to those of the Group. Accordingly, the assets and liabilities of these entities are translated into US dollars as set out in the above paragraph. There are no foreign operations which operate in hyperinflationary economies. Foreign exchange differences are recognized in the statement of operations.

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

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

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

Recognition

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

Measurement

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

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Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principle

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

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

Gains and losses on subsequent measurement

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

f. Property, plant & equipment

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

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

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

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

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.

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Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

Operating leases

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

h. Intangible assets

Goodwill

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortization and 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. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognized, it is recognized in the statement of operations when the future losses and expenses are recognized. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognized in the statement operations over the weighted average useful life of those assets that are depreciable/amortizable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognized immediately in the statement of operations. In respect of associates, the carrying amount of negative goodwill is included in the carrying amount of the investment in the associate. The carrying amount of other negative goodwill is deducted from the carrying amount of intangible assets.

Other intangible assets

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

Amortization

Amortization is charged to the statement of operations on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is amortized from the date of initial recognition and other intangible assets are amortized from the date they are available for use. The estimated useful lives are as follows:

Intangibles other than goodwill	3 – 10 years
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i. Asset impairment

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

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Notes to the pro-forma consolidated financial statements

(Amounts expressed in thousands of US dollars)

(2000 unaudited)

Calculation of recoverable amount

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

Reversals of impairment

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

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

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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 & contributions

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

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

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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.

m. Interest-bearing liabilities

Debt finance

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

Other interest-bearing liabilities

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

n. Income recognition

Sales revenues

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

Banking income

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

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o. Retirement benefits

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

p. Net financing

Net financing 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. Dividend income is recognized in the statement of operations on the date that the dividend is authorized.

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

q. Earnings per share

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

r. Related parties

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

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

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

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s. Provisions

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

u. Environmental

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

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

4. Sales

Sales by product were as follows:

	2001	2000
Hot rolled sheet	695,069	871,581
Cold rolled sheet	676,188	698,318
Hot rolled sections	160,253	146,638
Semi finished products	83,749	105,124
Pipes and cold formed sections	67,367	64,918
Wire	59,974	54,394
Chemical by-products	42,124	30,925
Fastenings	25,070	22,609
Wire rope	17,149	18,871
Netting	7,360	7,696
Welding rods	4,849	6,470
Other	118,130	99,362
Shipping and handling costs billed to customers	52,095	121,423
	<u>2,009,377</u>	<u>2,248,329</u>

Sales by delivery destination were as follows:

	2001	2000
Russian Federation	1,161,722	1,097,924
Europe	261,424	304,135
United States of America	111,539	119,011
Africa	107,251	123,559
South-East Asia	101,711	232,417
The Middle East	82,876	160,094
Central America	59,537	92,466
South America	55,325	69,188
Central Asia	38,646	26,797
North America (excluding the USA)	29,346	22,738
	<u>2,009,377</u>	<u>2,248,329</u>

5. Other operating income

	2001	2000
Amortization of deferred income	2,850	1,200
Foreign exchange gain on deferred income	402	846
Fee and commission income	5,232	4,814
Other	716	829
	<u>9,200</u>	<u>7,689</u>

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

6. Other operating expenses

	2001	2000
Loss on disposal of property, plant & equipment	(17,835)	(4,121)
Loss on disposal of intangible assets	-	(1)
Tax penalties	(2,753)	-
Expenses on social and research projects	(1,782)	(1,180)
Foreign exchange loss on cash balances	(529)	(684)
Political donations	-	(122)
	<u>(22,899)</u>	<u>(6,108)</u>

7. Staff costs

Employment costs were as follows:

	2001	2000
Wages and salaries	163,003	122,472
Social benefits	4,783	6,139
Social security costs	55,760	53,837
Retirement benefit costs - defined benefit plans (see note 29)	2,982	2,443
Gross staff costs	<u>226,528</u>	<u>184,891</u>
Actuarial losses recognized (see note 29)	12,535	1,285
Foreign exchange gains on unpaid liabilities:		
Wages, salaries and social benefits	(452)	(184)
Social security costs	(226)	(204)
Retirement benefit provision (see note 29)	(1,636)	(1,150)
Net staff costs	<u>236,749</u>	<u>184,638</u>

Included within the total social security costs paid to governments are payments to state pensions funds totaling US\$ 45.4 million (2000: US\$ 35.0 million).

The directors receive remuneration from the Company in respect of their services as officers and employees of the Company, these costs are included in 'wages and salaries' shown above. Staff costs are included in the 'Cost of sales' and 'Selling general & administration expenses' captions of the statement of operations.

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

	2001	2000
Iron & steel manufacture and sales	41,210	39,763
Metal reprocessing & machining	6,697	6,250
Other activities	5,710	5,399
Social activities	1,647	4,278
Total active employees	<u>55,264</u>	<u>55,690</u>
Retired employees receiving benefits	23,370	22,896
	<u>78,634</u>	<u>78,586</u>

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8. Net expenses with insurance operations	2001	2000
Gross premium income:		
Life insurance	1	710
Non-life insurance	5,627	2,905
From related parties	222	85
Outward reinsurance premiums	(9,817)	(5,156)
Claims paid:		
Life insurance	(36)	(1,073)
Non-life insurance	(3,826)	(4,465)
To related parties	(11)	(34)
Re-insurers' share of claims paid	2,071	972
Change in technical reserves	(3,000)	(1,789)
	<u>(8,769)</u>	<u>(7,845)</u>
9. Net income from banking operations	2001	2000
Interest income:		
Placements with other financial institutions	2,574	5,059
Loans to bank customers	4,479	5,204
Interest expense:		
Deposits from other financial institutions	(35)	(116)
Client accounts	(1,785)	(4,548)
Loan loss provisions:		
Specific	(604)	(378)
General	573	(100)
Leasing:		
Operating lease income	69	-
Finance lease interest income	480	356
Foreign exchange losses on lease receivables	(174)	1
	<u>5,577</u>	<u>5,478</u>
10. Net expenses from securities operations	2001	2000
Trading securities		
Net trading income	521	1,581
Mark to market adjustments	1,191	272
Held to maturity securities:		
Coupon income	512	320
Profit on disposal	65	-
Foreign exchange losses on debt securities	(17,004)	(2,592)
Discounting to fair value	(38,429)	(6,327)
Securities held for investment purposes:		
Profit on disposal	863	21
Write down to realizable value	(7,618)	(76)
	<u>(59,899)</u>	<u>(6,801)</u>

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

11. Non-operating expenses

	2001	2000
Charitable donations	(49,551)	(888)
Social expenditure	(13,600)	(14,873)
Loss on transfer of kindergartens to city administration	(2,459)	-
Depreciation of community & infrastructure assets	(961)	(973)
	<u>(66,571)</u>	<u>(16,734)</u>

12. Net financing income

	2001	2000
Financial income:		
Interest income - OAO Promstroibank (StP)	720	-
Interest income - other banks	11,412	16,908
Foreign exchange gain on loans	2,615	2,723
Financial expenses:		
Interest expense - OAO Promstroibank (StP)	(27)	-
Interest expense - other banks	(10,635)	(10,230)
Foreign exchange loss on short term deposits	(2,460)	(1,709)
Finance lease expenses:		
Interest expense	(2)	(2)
Foreign exchange gain on unpaid lease liabilities	-	32
	<u>1,623</u>	<u>7,722</u>

13. Taxation

The following is an analysis of the income tax expense:

	2001	2000
Current tax charge	(106,946)	(237,602)
Corrections to prior year's current tax charge	65	358
Deferred tax benefit	55,283	53,999
Effect of change in tax rate on deferred tax	14,060	(2,325)
Foreign exchange gain/(loss) on unpaid liabilities	(33)	341
Income tax expense	<u>(37,571)</u>	<u>(185,229)</u>

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The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the statutory tax rate of 31% (2000: 30%) to reported profit before income tax.

	2001	2000
Profit before income tax	<u>26,198</u>	<u>648,942</u>
Tax charge at the statutory rate	(8,121)	(194,683)
Non-deductible expenses	(55,879)	(5,109)
Tax incentives	31,995	28,634
Activities taxed at different rates	(815)	(254)
Effect of change in tax rate on deferred tax	14,060	(2,325)
Effect of foreign exchange differences on temporary differences	(18,843)	(12,191)
Corrections to prior year's current tax charge	65	358
Foreign exchange gain/(loss) on unpaid liabilities	(33)	341
Income tax expense	<u>(37,571)</u>	<u>(185,229)</u>

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

	Property, plant & equipment	Provisions	Other	Total
Balances at December 31, 1999	(574,853)	14,383	25,381	(535,089)
Recognized in:				
Statement of operations	66,834	(5,751)	(9,409)	51,674
Statement of changes in shareholders' equity	(14,100)	-	-	(14,100)
Business combinations	(578)	-	-	(578)
Balances at December 31, 2000	<u>(522,697)</u>	<u>8,632</u>	<u>15,972</u>	<u>(498,093)</u>
Recognized in:				
Statement of operations	65,677	(2,331)	5,997	69,343
Statement of changes in shareholders' equity	91,616	-	-	91,616
Balances at December 31, 2001	<u>(365,404)</u>	<u>6,301</u>	<u>21,969</u>	<u>(337,134)</u>

14. Cash and cash equivalents

	2001	2000
Petty cash	687	3,479
Cash at bank:		
OAO Promstroibank (StP)	3,526	-
Deposits at the Central Bank of Russia	36,174	9,196
International banks	32,342	6,910
Russian banks	7,653	4,860
Escrow accounts	11,329	10,200
Short term deposits:		
International banks	4,474	67,707
Russian banks	4,611	101,115
	<u>100,796</u>	<u>203,467</u>

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

15. Banking assets	2001	2000
Nostro accounts at other financial institutions	2,117	1,802
Placements with banks in OECD countries	1,525	120,445
Placements with Russian banks	4,667	2,677
Loans to bank customers:		
Related parties	3,374	8,897
Third parties	10,584	24,291
Specific loan loss provisions	(1,182)	(578)
General loan loss provisions	(348)	(921)
	<u>20,737</u>	<u>156,613</u>

As at December 31, 2000, of the placements with banks, US\$ 15.2 million were used as collateral to guarantee borrowings. Bank loans given to related parties were provided on an arm's length basis, and were given to finance working capital.

16. Trade accounts receivable	2001	2000
Customers	101,108	111,676
Allowance for doubtful accounts	(5,335)	(7,791)
	<u>95,773</u>	<u>103,885</u>
Movement in allowance for doubtful accounts:		
Opening balance	(7,801)	(13,501)
Amounts written off during the year	1,985	969
Change in provision	481	4,741
Closing balance	<u>(5,335)</u>	<u>(7,791)</u>

17. Inventories	2001	2000
Raw materials	102,933	110,493
Work-in-progress	56,472	39,054
Finished goods	87,636	69,813
	<u>247,041</u>	<u>219,360</u>

18. Amounts receivable from related parties	2001	2000
Advances paid	4,047	1,610
Trade accounts receivable	31,374	47,473
Other receivables	172	19
	<u>35,593</u>	<u>49,102</u>

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

Income received from related parties were as follows:

	2001	2000
Sales	103,346	162,540
Banking income	1,534	1,769
Insurance premiums	222	85

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

19. Other current assets

	2001	2000
Advances paid	56,043	54,526
Other taxes and social security prepaid	24,860	6,004
Prepayments	15,177	1,650
Other	8,434	6,878
Insurance and reinsurance receivables	171	-
	<u>104,685</u>	<u>69,058</u>

20. Lease receivables

	Total Receivable	Interest	Net Receivable
As at December 31, 2001			
Less than one year:			
Related parties	850	(132)	718
Third parties	354	(82)	272
Between one and five years:			
Related parties	428	(41)	387
Third parties	102	(14)	88
Total lease receivables	<u>1,734</u>	<u>(269)</u>	<u>1,465</u>
As at December 31, 2000			
Less than one year:			
Related parties	2,513	(441)	2,072
Between one and five years:			
Related parties	1,136	(122)	1,014
Total lease receivables	<u>3,649</u>	<u>(563)</u>	<u>3,086</u>

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

21. Financial assets

The Group's principal current financial assets are as follows:

Name	Principal activity	Country of incorporation	Share type	2001 Net	2000 Net
Held-for-trading securities:					
AKB Sberbank	Banking	Russia	Ordinary	86	19
RAO Unified Energy Systems	Electricity	Russia	Ordinary	388	235
OAo Vologdaenergo	Electricity	Russia	Ordinary	19	-
OAo Cherepovets Telephone Exchange	Telecommunications	Russia	Ordinary	278	139
OAo Lukoil	Petroleum	Russia	Ordinary	295	297
RAO Gazprom	Natural gas	Russia	Ordinary	132	75
OAo Hanty-Mansiisk Regional Telephone	Telecommunications	Russia	Ordinary	148	19
OAo Slavneft	Petroleum	Russia	Ordinary	-	12
OAo Surgutneftegaz	Petroleum	Russia	Ordinary	283	239
OAo Sibneft	Petroleum	Russia	Ordinary	217	81
OAo Eastern Oil Company	Petroleum	Russia	Ordinary	82	75
Others (individually less than US\$ 5,000 each)				14	9
Originated loans and receivables:					
Deposits at International banks				-	990
Deposits at Russian banks				10,336	14,946
Loans to related parties				63,103	93,644
Loans to third parties				41,326	11,569
Trading securities - promissory notes:					
From related parties				6,113	17,215
From third parties				29,555	9,196
Trading securities - bonds:					
Vneshtorgbank bonds				294	-
Russian Government bonds				203	1,868
Corporate bonds				2,511	-
				<u>155,383</u>	<u>150,628</u>

As at the year end, of the deposits US\$ 10.0 million (2000: US\$ 6.5 million) were used as collateral to guarantee borrowings. Loans given to related parties were generally provided on an interest free basis, and were given to finance working capital and investments.

22. Financial assets

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

Name	Principal activity	Country of incorporation	Share type	Percentage holding	2001 Net	2000 Net
Available-for-sale securities - held for investment:						
OAo HK Kolomensky Zavod	Locomotive manufacturing	Russia	Ordinary	16.33%	15,047	-
OAo Promstroibank (StP)	Banking	Russia	Ordinary	9.81%	11,262	-
ZAO Promtorgbank	Banking	Russia	Ordinary	10.19%	3,985	-
OAo Vorkutaugol	Coal mining	Russia	Ordinary	1.50%	1,183	-
OAo Kovdorsky GOK	Iron ore mining	Russia	Ordinary	11.88%	1,000	3,782
GSX.com Inc	Internet steel exchange	USA	Ordinary	-	-	200
Others (individually less than US\$ 5,000 each)					12	10
Originated loans and receivables:						
Loans to related parties					77,823	19,405
Loans to third parties					18,561	11
Held-to-maturity securities - promissory notes:						
From related parties					30,354	-
From third parties					9,190	7,970
					<u>168,417</u>	<u>31,378</u>

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23. Property, plant & equipment and intangible assets

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

	Buildings & constructions	Plant & machinery	Other productive assets	Total productive assets	Community & infrastructure assets	Intangible assets	Construction -in-progress	Total assets
Fair market value:								
January 1, 2001	320,636	1,745,711	34,178	2,100,525	18,516	363	55,282	2,174,686
Additions:								
External	-	-	-	-	-	64	97,452	97,516
Disposals - external	(8,772)	(19,698)	(2,156)	(30,626)	(2,963)	(1)	(15)	(33,605)
Transfer to financial assets	-	-	(441)	(441)	(48)	-	-	(489)
Transfer to inventories	-	-	-	-	-	-	(70)	(70)
Transfers from CIP	12,177	55,495	8,076	75,748	2,651	-	(78,399)	-
December 31, 2001	<u>324,041</u>	<u>1,781,508</u>	<u>39,657</u>	<u>2,145,206</u>	<u>18,156</u>	<u>426</u>	<u>74,250</u>	<u>2,238,038</u>
Accumulated depreciation:								
January 1, 2001	-	-	-	-	-	-	-	-
Depreciation expense	24,182	168,211	8,048	200,441	961	109	-	201,511
Disposals - external	(181)	(2,074)	(353)	(2,608)	(149)	(1)	-	(2,758)
Transfer to financial assets	-	-	(54)	(54)	(3)	-	-	(57)
Impairment of assets:								
included in cost of sales	96	105	81	282	-	-	-	282
included in equity	-	13,500	-	13,500	-	-	-	13,500
December 31, 2001	<u>24,097</u>	<u>179,742</u>	<u>7,722</u>	<u>211,561</u>	<u>809</u>	<u>108</u>	<u>-</u>	<u>212,478</u>
Net book values:								
January 1, 2001	<u>320,636</u>	<u>1,745,711</u>	<u>34,178</u>	<u>2,100,525</u>	<u>18,516</u>	<u>363</u>	<u>55,282</u>	<u>2,174,686</u>
December 31, 2001	<u>299,944</u>	<u>1,601,766</u>	<u>31,935</u>	<u>1,933,645</u>	<u>17,347</u>	<u>318</u>	<u>74,250</u>	<u>2,025,560</u>

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

January 1, 2001

Cost	-	-	274	274	-	-	274
Accumulated depreciation	-	-	-	-	-	-	-
Net book value	<u>-</u>	<u>-</u>	<u>274</u>	<u>274</u>	<u>-</u>	<u>-</u>	<u>274</u>

December 31, 2001

Cost	-	-	1,349	1,349	-	-	1,349
Accumulated depreciation	-	-	(14)	(14)	-	-	(14)
Net book value	<u>-</u>	<u>-</u>	<u>1,335</u>	<u>1,335</u>	<u>-</u>	<u>-</u>	<u>1,335</u>

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

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24. Bank customer accounts

	2001	2000
Customer accounts:		
Demand deposits	4,260	17,825
Term deposits	639	30,149
Deposits from other financial institutions:		
Vostro accounts	48	360
Term deposits	670	2,468
	<u>5,617</u>	<u>50,802</u>

25. Amounts payable to related parties

	2001	2000
Advances received	155	209
Trade accounts payable	2,957	5,022
Other accounts payable	8,277	6,256
Bank demand deposits	256	3,306
Bank term deposits	-	296
	<u>11,645</u>	<u>15,089</u>

Purchases from related parties were as follows:

	2001	2000
Non-capital purchases	258,240	207,037
Capital purchases	464	489
Bank expenses	54	90
Insurance claims paid	11	34

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

26. Debt finance

	2001	2000
OAO Promstroibank (StP)	1,616	-
International banks	58,736	50,838
Russian banks	101,912	59,361
Accrued interest	961	663
	<u>163,225</u>	<u>110,862</u>

Total debt is denominated in the following currencies:

	2001	2000
Roubles	61,137	9,219
US dollars	89,793	60,693
Euros	12,295	40,950
	<u>163,225</u>	<u>110,862</u>

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Notes to the pro-forma consolidated financial statements (Amounts expressed in thousands of US dollars) (2000 unaudited)

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

	2001	2000
Less than one year	98,444	70,822
Between one and two years	27,170	19,991
Between two and five years	37,611	20,049
	<u>163,225</u>	<u>110,862</u>

These loans are secured by charges over US\$ 563.9 million (2000: US\$ 90 million) net book value of plant & equipment and US\$ 48.5 million (2000: US\$ 25 million) of working capital. At the balance sheet date the Group had US\$ 34.1 million (2000: US\$ 40 million) of unused long term credit lines available to it.

27. Lease liabilities

	Total payable	Interest	Net payable
As at December 31, 2001			
Less than one year	287	(2)	285
Between one and five years	801	(2)	799
	<u>1,088</u>	<u>(4)</u>	<u>1,084</u>
As at December 31, 2000			
Less than one year	76	(2)	74
Between one and five years	204	(4)	200
More than five years	17	-	17
	<u>297</u>	<u>(6)</u>	<u>291</u>

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

28. Other current liabilities

	2001	2000
Advances received	32,417	43,041
Amounts payable to employees	16,302	7,075
Other	8,306	10,730
Accrued expenses	2,828	2,877
Insurance and reinsurance payables	2,759	-
	<u>62,612</u>	<u>63,723</u>

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29. Other non-current liabilities

	2001	2000
Net liability for retirement benefits	32,658	28,135
Insurance reserves:		
Unearned premium reserve	4,746	3,608
Recognized but not settled reserve	8,672	2,138
Incurred but not reported reserve	1,054	359
Life insurance reserve	156	237
Preventative reserve	1,131	619
Re-insurer's share of reserves:		
Unearned premium reserve	(1,205)	(753)
Recognized but not settled reserve	(6,549)	(1,325)
Incurred but not reported reserve	(219)	(97)
	<u>40,444</u>	<u>32,921</u>

A discount rate of 13% has been used to calculate the retirement benefit liability. Future retirement benefit increases are assumed to be zero in US dollar terms. The expected return on plan assets is 15%.

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

	2001	2000
Components of the net liability for retirement benefits:		
Present value of the defined benefit obligation	35,718	41,551
Fair value of the plan assets	(6,331)	-
Unrecognized actuarial gain/(loss)	3,271	(13,416)
	<u>32,658</u>	<u>28,135</u>
Movements in the net liability for retirement benefits:		
Net liability at beginning of year	28,135	27,924
Contributions made during the year	(9,358)	(2,367)
Amounts recognized in the statement of operations:		
Expected return on plan assets	(568)	-
Interest cost	2,765	1,914
Service cost	785	529
Actuarial losses	12,535	1,285
Foreign exchange gain	(1,636)	(1,150)
Net liability at end of year	<u>32,658</u>	<u>28,135</u>
Components of the total defined benefit obligation:		
Retirees	24,356	26,639
Other participants:		
Vested	3,745	4,077
Non-vested	7,617	10,835
	<u>35,718</u>	<u>41,551</u>

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

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30. Shareholders' equity

The Parent Company's authorized capital, according to its Charter Document, at the balance sheet date comprised 22,074,192 ordinary shares with a nominal value of Rbs 0.25 each. This nominal amount was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions. All shares carry equal voting and distribution rights. The movements in shares are as follows:

	Shares issues and fully paid	Treasury shares	Total outstanding
As at December 31, 1999 & 2000	22,074,192	(1,422)	22,072,770
Sold during the year	-	1,422	1,422
As at December 31, 2001	<u>22,074,192</u>	<u>-</u>	<u>22,074,192</u>

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\$ 795.5 million (2000: US\$ 778.3 million).

31. Commitments and contingencies

a. For litigation, tax and other liabilities

At the balance sheet date, the Group was subject to various claims from customers and suppliers totaling US\$ 2.6 million (2000: US\$ 4.3 million) and the tax authorities totaling US\$ 5.1 million (2000 US\$ 4.6 million). Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements.

b. Long term purchase and sales contracts

In the normal course of business 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 capital commitments of US\$ 22 million (2000: US\$ 14 million).

d. Insurance

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

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e. Guarantees

At the balance sheet date the Group had given US\$ 34.9 million (2000: US\$ 85.5 million) of guarantees for bank borrowings by third parties, of which US\$ 3.7 million (2000: US\$ 55.5 million) were in respect of related parties. All these guarantees mature within one year.

32. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The metallurgical and insurance segments of the Group do not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. Within the financing segment of the Group the use of derivative financial instruments during 2001 was limited because of the financial crisis in 1998 - subsequent to this crisis no liquid market has existed for forward or derivative operations denominated in roubles. As at December 31, 2001 and 2000 the financing segment had no outstanding foreign exchange contracts.

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

Credit risk

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

Liquidity risk

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

Foreign exchange rate risk

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

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. Interest rate risk is managed by increasing or decreasing positions within limits specified by management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities. The Group does not have significant interest rate exposure due to the short term nature of the Russian market.

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In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates, in US dollar terms, at the balance sheet date:

	2001	2000
Short term deposits and placements	22.9%	6.4%
Loans to bank customers	13.3%	17.9%
Held-for-trading securities	17.9%	6.4%
Held-to-maturity securities	8.8%	11.2%
Lease receivables	13.4%	21.7%
Bank customer accounts	-5.5%	2.9%
Promissory notes issued	4.4%	3.4%
Debt finance:		
Rouble denominated	4.1%	10.3%
US dollar denominated	8.7%	12.3%
Euro denominated	11.9%	8.9%
Lease liabilities	0.1%	0.1%

33. Allocation of foreign exchange gains and losses

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

	2001	2000
Net sales	(4,089)	(1,253)
Cost of sales	7,901	8,118
Selling, general & administration expenses	(1,396)	(1,292)
Indirect taxes & contributions	63	(82)
Other operating income	402	846
Other operating expenses	(529)	(684)
Net income from banking operations	(174)	1
Net income from securities operations	(17,004)	(2,592)
Sub-total	<u>14,826</u>	<u>3,062</u>
Net financing income	155	1,046
Income tax expense	(33)	341
	<u>(14,704)</u>	<u>4,449</u>

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(2000 unaudited)

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

	2001	2000
Cash and cash equivalents	(529)	(684)
Financial assets - debt securities	(17,004)	(2,592)
Trade accounts receivable	(4,089)	(1,253)
VAT recoverable	(1,740)	(1,305)
Other current assets	(3,265)	(1,457)
Lease receivables	(174)	1
Trade accounts payable	7,901	8,118
Other taxes and social security payable	63	(82)
Deferred income	402	846
Dividends payable	1,233	-
Other current liabilities	740	320
Other non-current liabilities	1,636	1,150
Sub-total	<u>(14,826)</u>	<u>3,062</u>
Financial assets - bank deposits	(2,460)	(1,709)
Income tax payable/(recoverable)	(33)	341
Debt finance	2,615	2,723
Lease liabilities	-	32
	<u>(14,704)</u>	<u>4,449</u>

34. Subsidiary companies

The following is a list of significant subsidiaries.

Company	Location	Activity
Metallurgical segment:		
Severstal Export GmbH	Switzerland	Steel sales
Severstal Trade Inc	USA	Steel sales
AO Severstallat	Latvia	Steel sales
OAO Cherepovets Steel Rolling Mill	Russia	Steel machining
OAO Domnaremont	Russia	Steel producing equipment repairs
OAO Metallurgremont	Russia	Steel producing equipment repairs
OAO NIIER	Russia	Research and development
Insurance segment:		
OAO Insurance Company Sheksna	Russia	Insurance
OAO Sheksna M	Russia	Medical insurance
Financing segment:		
OAO Metallurgical Commercial Bank	Russia	Banking
OOO Promleasing	Russia	Leasing

In addition, another 47 subsidiaries, which are not material to the Group, either individually or in aggregate, have been included in these pro-forma consolidated financial statements.

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In December 2000, Severstal acquired 99.4% of the shares of OAO Izhora Tube Factory for US\$ 3.8 million, satisfied in cash. OAO Izhora Tube Factory is in its pre-operational stages and will produce pipes of various diameters from steel produced by Severstal. The acquisition was accounted for using the purchase method of consolidation. The acquisition had the following effect on the Group's assets and liabilities:

	2000
Cash & cash equivalents	189
VAT recoverable	1
Other current assets	3
Property, plant & equipment	4,210
Other taxes and social security payable	(6)
Other current liabilities	(2)
Deferred tax	(578)
Net identifiable assets and liabilities	<u>3,817</u>
Goodwill on acquisition	-
Consideration satisfied in cash	<u><u>3,817</u></u>
Net cash outflow	<u><u>3,628</u></u>

35. Subsequent events

On April 19, 2002 construction started of the new galvanizing plant in Cherepovets that constitutes the joint venture between Severstal and Arcelor called ZAO Severgal. Severstal has a 74.99% share of this joint venture. The total investment relating to this joint venture is estimated at US\$ 170 million of which US\$ 60 million will be financed by Severstal. It is expected to become operational during 2004.

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(2000 unaudited)

36. Segmental information

	<u>Metallurgical</u>	<u>Financing</u>	<u>Insurance</u>	<u>Inter segment balances</u>	<u>Consolidated</u>
Segmental balance sheets as at December 31, 2001					
Assets					
Current assets:					
Cash and cash equivalents	81,635	36,776	20,903	(38,518)	100,796
Central bank reserves	-	4,897	-	-	4,897
Banking assets	-	21,849	-	(1,112)	20,737
Trade accounts receivable	95,760	13	-	-	95,773
Inventories	249,186	1,466	2,613	(6,224)	247,041
Amounts receivable from related parties	35,219	374	-	-	35,593
VAT recoverable	36,033	83	8	-	36,124
Income tax recoverable	3,458	676	2	-	4,136
Other current assets	102,765	1,032	888	-	104,685
Lease receivables	-	1,520	-	(530)	990
Financial assets	142,187	5,158	18,158	(10,120)	155,383
Total current assets	<u>746,243</u>	<u>73,844</u>	<u>42,572</u>	<u>(56,504)</u>	<u>806,155</u>
Non-current assets:					
Lease receivables	-	882	-	(407)	475
Financial assets	168,417	-	-	-	168,417
Intangible assets	-	318	-	-	318
Property, plant & equipment	2,020,378	2,700	2,164	-	2,025,242
Total non-current assets	<u>2,188,795</u>	<u>3,900</u>	<u>2,164</u>	<u>(407)</u>	<u>2,194,452</u>
Total assets	<u>2,935,038</u>	<u>77,744</u>	<u>44,736</u>	<u>(56,911)</u>	<u>3,000,607</u>
Liabilities and shareholders' equity					
Current liabilities:					
Trade accounts payable	94,426	1,541	-	(3,369)	92,598
Bank customer accounts	-	5,617	-	-	5,617
Amounts payable to related parties	13,768	42,461	158	(44,742)	11,645
Income taxes payable	433	-	14	-	447
Other taxes and social security payable	28,000	149	16	-	28,165
Deferred income	5,934	-	-	-	5,934
Debt finance	99,522	846	-	(1,924)	98,444
Lease liabilities	815	-	-	(530)	285
Dividends payable	19,348	4	-	-	19,352
Other current liabilities	59,199	207	3,206	-	62,612
Total current liabilities	<u>321,445</u>	<u>50,825</u>	<u>3,394</u>	<u>(50,565)</u>	<u>325,099</u>
Non-current liabilities:					
Debt finance	64,715	66	-	-	64,781
Lease liabilities	1,206	-	-	(407)	799
Deferred tax	328,862	1,329	6,943	-	337,134
Other non-current liabilities	32,658	-	7,786	-	40,444
Total noncurrent liabilities	<u>427,441</u>	<u>1,395</u>	<u>14,729</u>	<u>(407)</u>	<u>443,158</u>
Minority interest	<u>36,858</u>	<u>-</u>	<u>-</u>	<u>11,232</u>	<u>48,090</u>
Shareholders' equity:					
Share capital	3,311,129	34,815	8,952	(43,767)	3,311,129
Treasury shares	-	-	-	-	-
Revaluation reserve	949,245	-	-	-	949,245
Accumulated deficit	(2,111,080)	(9,291)	17,661	26,596	(2,076,114)
Total shareholders' equity	<u>2,149,294</u>	<u>25,524</u>	<u>26,613</u>	<u>(17,171)</u>	<u>2,184,260</u>
Total liabilities and shareholders' equity	<u>2,935,038</u>	<u>77,744</u>	<u>44,736</u>	<u>(56,911)</u>	<u>3,000,607</u>

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36. Segmental information

	<u>Metallurgical</u>	<u>Financing</u>	<u>Insurance</u>	<u>Inter segment balances</u>	<u>Consolidated</u>
Segmental balance sheets as at December 31, 2000					
Assets					
Current assets:					
Cash and cash equivalents	298,165	12,630	6,281	(113,609)	203,467
Central bank reserves	-	17,717	-	-	17,717
Banking assets	-	161,373	-	(4,760)	156,613
Trade accounts receivable	103,885	-	-	-	103,885
Inventories	224,370	661	-	(5,671)	219,360
Amounts receivable from related parties	48,574	528	-	-	49,102
VAT recoverable	28,148	148	12	-	28,308
Income tax recoverable	295	98	47	-	440
Other current assets	68,757	142	159	-	69,058
Lease receivables	-	2,917	-	(845)	2,072
Financial assets	158,662	6,676	5,592	(20,302)	150,628
Total current assets	<u>930,856</u>	<u>202,890</u>	<u>12,091</u>	<u>(145,187)</u>	<u>1,000,650</u>
Non-current assets:					
Lease receivables	-	1,937	-	(923)	1,014
Financial assets	31,378	-	-	-	31,378
Intangible assets	-	363	-	-	363
Property, plant & equipment	2,159,564	12,519	2,240	-	2,174,323
Total non-current assets	<u>2,190,942</u>	<u>14,819</u>	<u>2,240</u>	<u>(923)</u>	<u>2,207,078</u>
Total assets	<u>3,121,798</u>	<u>217,709</u>	<u>14,331</u>	<u>(146,110)</u>	<u>3,207,728</u>
Liabilities and shareholders' equity					
Current liabilities:					
Trade accounts payable	55,739	3,942	-	(849)	58,832
Bank customer accounts	-	50,802	-	-	50,802
Amounts payable to related parties	11,436	137,325	58	(133,730)	15,089
Income taxes payable	6,940	-	-	-	6,940
Other taxes and social security payable	18,765	53	21	-	18,839
Deferred income	7,424	-	-	-	7,424
Debt finance	75,048	1,303	-	(5,529)	70,822
Lease liabilities	919	-	-	(845)	74
Dividends payable	-	-	-	-	-
Other current liabilities	62,448	708	567	-	63,723
Total current liabilities	<u>238,719</u>	<u>194,133</u>	<u>646</u>	<u>(140,953)</u>	<u>292,545</u>
Non-current liabilities:					
Debt finance	40,022	-	18	-	40,040
Lease liabilities	1,140	-	-	(923)	217
Deferred tax	494,702	1,284	2,107	-	498,093
Other non-current liabilities	28,135	-	4,786	-	32,921
Total non-current liabilities	<u>563,999</u>	<u>1,284</u>	<u>6,911</u>	<u>(923)</u>	<u>571,271</u>
Minority interest	<u>35,472</u>	<u>-</u>	<u>-</u>	<u>8,651</u>	<u>44,123</u>
Shareholders' equity:					
Share capital	3,311,129	34,815	7,286	(42,101)	3,311,129
Treasury shares	-	(544)	-	331	(213)
Revaluation reserve	972,921	-	-	-	972,921
Accumulated deficit	(2,000,442)	(11,979)	(512)	28,885	(1,984,048)
Total shareholders' equity	<u>2,283,608</u>	<u>22,292</u>	<u>6,774</u>	<u>(12,885)</u>	<u>2,299,789</u>
Total liabilities and shareholders' equity	<u>3,121,798</u>	<u>217,709</u>	<u>14,331</u>	<u>(146,110)</u>	<u>3,207,728</u>

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36. Segmental information

	<u>Metallurgical</u>	<u>Financing</u>	<u>Insurance</u>	<u>Inter segment transactions</u>	<u>Consolidated</u>
Segmental statements of operations, year ended December 31, 2001					
Sales					
Sales - external	1,906,031	-	-	-	1,906,031
Sales - to related parties	103,346	-	-	-	103,346
	<u>2,009,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,009,377</u>
Cost of sales	(1,485,226)	-	-	-	(1,485,226)
Gross profit	<u>524,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>524,151</u>
Indirect taxes & contributions	(35,979)	(723)	(122)	-	(36,824)
Selling, general & administration expenses	(118,583)	(6,800)	(1,992)	31,854	(95,521)
Distribution expenses	(223,870)	-	-	-	(223,870)
Other operating income	3,252	5,126	822	-	9,200
Other operating expenses	(21,915)	(911)	(73)	-	(22,899)
Net expenses with insurance operations	-	-	22,767	(31,536)	(8,769)
Net income from banking operations	-	5,906	-	(329)	5,577
Net expenses from securities operations	(62,170)	1,771	500	-	(59,899)
Profit from operations	<u>64,886</u>	<u>4,369</u>	<u>21,902</u>	<u>(11)</u>	<u>91,146</u>
Non-operating expenses	(66,571)	-	-	-	(66,571)
Profit before financing and taxation	<u>(1,685)</u>	<u>4,369</u>	<u>21,902</u>	<u>(11)</u>	<u>24,575</u>
Net financing income	25	(191)	1,460	329	1,623
Profit before income tax	<u>(1,660)</u>	<u>4,178</u>	<u>23,362</u>	<u>318</u>	<u>26,198</u>
Income tax expense	<u>(30,892)</u>	<u>(1,490)</u>	<u>(5,189)</u>	<u>-</u>	<u>(37,571)</u>
(Loss)/profit for the year	<u>(32,552)</u>	<u>2,688</u>	<u>18,173</u>	<u>318</u>	<u>(11,373)</u>
Profit attributable to minorities	<u>(1,361)</u>	<u>-</u>	<u>-</u>	<u>(2,607)</u>	<u>(3,968)</u>
(Loss)/profit attributable to shareholders	<u><u>(33,913)</u></u>	<u><u>2,688</u></u>	<u><u>18,173</u></u>	<u><u>(2,289)</u></u>	<u><u>(15,341)</u></u>

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36. Segmental information

	<u>Metallurgical</u>	<u>Financing</u>	<u>Insurance</u>	<u>Inter segment transactions</u>	<u>Consolidated</u>
Segmental statements of operations, year ended December 31, 2000					
Sales					
Sales - external	2,085,789	-	-	-	2,085,789
Sales - to related parties	162,540	-	-	-	162,540
	<u>2,248,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,248,329</u>
Cost of sales	(1,283,160)	-	-	-	(1,283,160)
Gross profit	<u>965,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>965,169</u>
Indirect taxes & contributions	(42,875)	(1,073)	(100)	-	(44,048)
Selling, general & administration expenses	(61,987)	(7,974)	(1,302)	11,265	(59,998)
Distribution expenses	(195,582)	-	-	-	(195,582)
Other operating income	2,046	5,168	475	-	7,689
Other operating expenses	(5,701)	(289)	(118)	-	(6,108)
Net expenses with insurance operations	-	-	3,650	(11,495)	(7,845)
Net income from banking operations	-	4,495	-	983	5,478
Net expenses from securities operations	(8,925)	1,873	251	-	(6,801)
Profit from operations	<u>652,145</u>	<u>2,200</u>	<u>2,856</u>	<u>753</u>	<u>657,954</u>
Non-operating expenses	(16,734)	-	-	-	(16,734)
Profit before financing and taxation	<u>635,411</u>	<u>2,200</u>	<u>2,856</u>	<u>753</u>	<u>641,220</u>
Net financing income	8,727	(190)	168	(983)	7,722
Profit before income taxes	<u>644,138</u>	<u>2,010</u>	<u>3,024</u>	<u>(230)</u>	<u>648,942</u>
Income tax expense	<u>(185,439)</u>	<u>1,465</u>	<u>(1,255)</u>	<u>-</u>	<u>(185,229)</u>
(Loss)/profit for the year	<u>458,699</u>	<u>3,475</u>	<u>1,769</u>	<u>(230)</u>	<u>463,713</u>
Profit attributable to minorities	<u>(2,557)</u>	<u>-</u>	<u>-</u>	<u>(1,440)</u>	<u>(3,997)</u>
(Loss)/profit attributable to shareholders	<u><u>456,142</u></u>	<u><u>3,475</u></u>	<u><u>1,769</u></u>	<u><u>(1,670)</u></u>	<u><u>459,716</u></u>