

# **SEVERSTAL**

Parent company financial statements  
for the year ended December 31, 1999

# Severstal

## Parent company financial statements for the year ended December 31, 1999

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## Auditor's Report

The Board of Directors and Shareholders  
OAO Severstal  
Cherepovets, Russia

We have audited the accompanying parent company balance sheet of OAO Severstal (the "Company") as of 31 December 1999 and the related statements of income and cash flows for the year then ended. The parent company financial statements, as set out on pages 2 to 24, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Company has subsidiary companies and is required by International Accounting Standard 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* to prepare consolidated financial statements. Management has not prepared consolidated financial statements.

In our opinion, except for the omission of consolidated financial statements as described in the preceding paragraph, the parent company financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 1999 and the result of its operations and its cash flows for the year then ended in accordance with International Accounting Standards as issued by the International Accounting Standards Committee.

Without further qualifying our opinion, we draw attention to note 1 to the parent company financial statements regarding the operating environment in the Russian Federation.

KPMG Ltd

KPMG Limited  
Moscow, Russian Federation  
4 July 2000



# Severstal

## Parent company balance sheet December 31, 1999

*(Amounts expressed in thousands of US dollars)*

Assets	<u>Note</u>	December 31		
		1999	1998	1997
<b>Current assets:</b>				
Cash and cash equivalents	10	131,507	19,499	27,645
Short term investments	11	10,980	-	-
Trade accounts receivable	12	27,714	23,993	27,695
Amounts receivable from group companies	14	27,191	49,738	57,272
VAT recoverable		20,540	39,395	136,026
Inventories	13	122,908	161,919	369,769
Current taxes recoverable		-	2,854	-
Other current assets	15	60,694	34,272	101,196
<b>Total current assets</b>		401,534	331,670	719,603
<b>Noncurrent assets:</b>				
Property, plant & equipment	16	1,112,944	1,251,379	1,443,907
Investments	17	58,271	74,314	66,796
<b>Total noncurrent assets</b>		1,171,215	1,325,693	1,510,703
<b>Total assets</b>		1,572,749	1,657,363	2,230,306

See the accompanying notes to the financial statements.

# Severstal

## Parent company balance sheet

**December 31, 1999**

*(Amounts expressed in thousands of US dollars)*

	<u>Note</u>	<b>December 31</b>		
		<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Trade accounts payable		47,448	64,134	151,795
Amounts payable to group companies	18	23,717	26,627	157,117
Taxes payable		9,989	-	11,677
Other taxes and social security payable		6,826	45,079	105,543
Deferred income		8,243	9,579	32,694
Short term loans	20	37,083	132,988	249,359
Other current liabilities	19	87,923	122,589	219,950
<b>Total current liabilities</b>		<b>221,229</b>	<b>400,996</b>	<b>928,135</b>
<b>Noncurrent liabilities:</b>				
Long term debt	20	310	48	167
Lease liabilities	21	2,661	-	-
Deferred tax	9	203,054	278,163	-
Other noncurrent liabilities	22	26,496	33,800	115,922
<b>Total noncurrent liabilities</b>		<b>232,521</b>	<b>312,011</b>	<b>116,089</b>
<b>Shareholders' equity:</b>				
Share capital	23	3,311,129	3,311,129	3,311,129
Accumulated deficit		(2,192,130)	(2,366,773)	(2,125,047)
<b>Total shareholders' equity</b>		<b>1,118,999</b>	<b>944,356</b>	<b>1,186,082</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,572,749</b>	<b>1,657,363</b>	<b>2,230,306</b>

See the accompanying notes to the financial statements.

# Severstal

## Parent company statement of operations Year ended December 31, 1999

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

	Note	Year ended December 31		
		1999	1998	1997
<b>Sales</b>				
Net sales - other		1,315,454	1,521,084	1,850,817
Net sales - to group companies	14	164,050	382,388	638,496
<b>Net sales</b>	4	1,479,504	1,903,472	2,489,313
Cost of sales		(1,006,230)	(1,530,751)	(2,099,430)
<b>Gross profit</b>		473,274	372,721	389,883
Indirect taxes & contributions		(30,648)	(57,488)	(95,698)
Selling, general & administration expense		(83,781)	(77,908)	(81,952)
Other operating income	5	15,500	58,604	29,457
Other operating expenses	6	(62,974)	(85,599)	(37,863)
<b>Profit from operations</b>		311,371	210,330	203,827
Nonoperating expenses	7	(21,605)	(51,943)	(49,818)
<b>Profit before financing and taxation</b>		289,766	158,387	154,009
Net financing expense	8	(45,385)	(50,398)	(41,373)
<b>Profit before income taxes</b>		244,381	107,989	112,636
<b>Income tax expense</b>	9	(69,738)	(349,715)	(106,414)
<b>Profit/(loss) for the year</b>		174,643	(241,726)	6,222
Weighted average number of shares outstanding during the year				
		22,074,192	22,074,192	22,074,192
Basic and diluted profit/(loss) per share				
		7.91	(10.95)	0.28

There were no items to record in the statement of total recognized gains and losses during the year other than the profit/loss for the year as shown above.

See the accompanying notes to the financial statements.

# Severstal

## Parent company statement of cash flows Year ended December 31, 1999

*(Amounts expressed in thousands of US dollars)*

	Year ended December 31		
	1999	1998	1997
<b>Operating activities:</b>			
Profit before financing and taxation	289,766	158,387	154,009
Adjustments to reconcile profit to cash provided by operating activities:			
Depreciation (total assets)	122,689	146,194	146,208
Foreign exchange gain	(7,328)	(105,069)	(8,336)
Write down of property, plant & equipment	30,118	35,754	-
Loss on disposal of property, plant & equipment	14,807	6,004	3,652
Inventory obsolescence provision	739	(2,535)	(13,012)
Provision for doubtful accounts receivable	(3,965)	(72,704)	(873)
Changes in operating assets and liabilities:			
Short term investments	(10,980)	-	-
Trade accounts receivable	244	76,406	140,716
Amounts receivable from group companies	22,547	7,534	(14,760)
Inventories	42,800	256,569	(14,474)
VAT recoverable	9,149	733	(49,122)
Other taxes and social security	(44,513)	(11,019)	(21,647)
Other current assets	(20,875)	34,419	(72,153)
Trade accounts payable	(16,686)	(87,661)	(27,537)
Amounts payable to group companies	(2,910)	(130,490)	75,304
Deferred income	2,481	(2,103)	(21,531)
Other current liabilities	(25,941)	(43,585)	(144,391)
Other noncurrent liabilities	1,470	343	2,360
<b>Cash generated from operating activities</b>	<b>403,612</b>	<b>267,177</b>	<b>134,413</b>
Interest received	1,989	6	3
Interest paid	(22,160)	(38,717)	(42,604)
Income tax paid	(130,416)	(90,998)	(103,008)
<b>Net cash provided from (used in) operating activities</b>	<b>253,025</b>	<b>137,468</b>	<b>(11,196)</b>
<b>Investing activities:</b>			
Additions to property, plant & equipment	(47,762)	(62,189)	(103,757)
Additions to investments	(8,527)	(5,840)	(6,873)
Proceeds from disposal of investments	-	465	-
Proceeds from disposal of property, plant & equipment	11,950	4,813	9,437
<b>Cash used for investing activities</b>	<b>(44,339)</b>	<b>(62,751)</b>	<b>(101,193)</b>
<b>Financing activities:</b>			
Repayment of borrowings	(89,397)	(80,122)	-
Proceeds from borrowings	-	-	131,726
New finance leases obtained	3,638	-	-
Finance leases repaid	(555)	-	-
Dividends received	-	7	1,052
<b>Cash provided from (used by) financing activities</b>	<b>(86,314)</b>	<b>(80,115)</b>	<b>132,778</b>
Effect of exchange rates on cash	(10,364)	(2,748)	(1,825)
<b>Net (decrease)/increase in cash and cash equivalents</b>	112,008	(8,146)	18,564
<b>Cash and cash equivalents at beginning of year</b>	19,499	27,645	9,081
<b>Cash and cash equivalents at end of year</b>	<b>131,507</b>	<b>19,499</b>	<b>27,645</b>

See the accompanying notes to the financial statements.

## Severstal

**Parent company statement of changes in shareholders' equity**  
**Year ended December 31, 1999**  
*(Amounts expressed in thousands of US dollars)*

	<b>Share capital</b>	<b>Accumulated deficit</b>	<b>Total</b>
Balance at December 31, 1996	3,311,129	(2,131,269)	1,179,860
Profit for the year	-	6,222	6,222
Balance at December 31, 1997	3,311,129	(2,125,047)	1,186,082
Loss for the year	-	(241,726)	(241,726)
Balance at December 31, 1998	3,311,129	(2,366,773)	944,356
Profit for the year	-	174,643	174,643
Balance at December 31, 1999	3,311,129	(2,192,130)	1,118,999

See the accompanying notes to the financial statements.

# Severstal

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

### 1. Operations

Severstal ('the Company') began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as part of the Russian privatization program, the Company was registered as a Joint Stock Company and privatized. The Company's shares are traded on the Russian Trading System. At December 31, 1999 the Company had approximately 64,000 shareholders, the majority of whom are employees (including management) of the Company.

The Company's principal activity is the production and sale of steel products. The Company also has various social responsibilities such as the operation and maintenance of sports complexes, retirement homes, holiday and recreational facilities, public housing and kindergartens. Other activities include restaurants, canteens and shops (see note 28 for segmental information).

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

### 2. Presentation of the financial statements

These financial statements were prepared in accordance with International Accounting Standards ('IAS') except that consolidated financial statements have not been prepared (see below). The Company's statutory financial reports are prepared in accordance with accounting principles derived from Russian law, which differ in certain respects from IAS. The accounting policies adopted and consistently applied in the preparation of these financial statements are set out in note 3.

The following items were reclassified in 1999: other income, net nonoperating expenses; advances received from customers; advances paid to suppliers; and export shipments that had not completed customs procedures at the balance sheet date. The comparative figures have been adjusted accordingly.

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

The preparation of financial statements in conformity with IAS 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.

Management believes that the US dollar provides a more accurate expression of the Company's financial statements than the Russian rouble. Had the Russian rouble been used as the reporting currency, the financial statements would have been presented in a fully indexed form, based on a general price index, in accordance with IAS 29 'Financial Reporting in Hyperinflationary Economies'. Due to a divergence between (i) the US dollar to rouble exchange rate; and, (ii) Russian general price indices, the information presented in these financial statements may differ from the information which would have been presented had the Russian rouble been used as the reporting currency with a convenience translation into US dollars.

The conversion from the Russian rouble to the US dollar was performed using historical exchange rates for nonmonetary assets and liabilities, while monetary assets and liabilities were translated using current exchange rates. Results of operations were translated using a combination of historical and average exchange rates, and all exchange differences were reflected in the statement

# Severstal

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

of operations. An analysis of the exchange difference is given in note 26 of these financial statements. The conversion into US dollars should not be construed as a representation that the Russian rouble amounts could be converted into US dollars at the exchange rates used for the conversion or at any other rate. The Central Bank of Russia's exchange rates, used in the conversion, at the end of each year were as follows:

<u>Date</u>	<u>Exchange rate to the US dollar</u> Roubles
December 31, 1996	5.56
December 31, 1997	5.96
December 31, 1998	20.65
December 31, 1999	27.00

The Company has not prepared audited consolidated financial statements. To present the results of the group as if it was a single entity, consolidated financial statements would combine, on a line-by-line basis, the financial statements of all controlled entities, followed by the elimination of intragroup transactions and balances, the identification of minority interests and goodwill relating to those entities, and, recognize the equity carrying value of investments in associates. Consequently, the consolidated results of operations and the consolidated financial position of the group is likely to be materially different to that of the Company.

### **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. Short term investments**

Short term investments are all highly liquid temporary investments with original maturity dates of more than three months.

#### **c. Inventories**

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average method. Provisions are recorded against slow moving and obsolete inventories when considered necessary.

#### **d. Provisions for doubtful accounts**

Provisions are made against trade accounts receivable whose recoverability is considered improbable.

#### **e. Foreign currency transactions**

Transactions in currencies other than the reporting currency are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities not denominated in the reporting currency are translated using the exchange rate on the balance sheet date. Exchange differences are recognized in the statement of operations as they arise.

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

### f. Noncurrent investments

Investments, which comprise items held for purposes other than trading, are stated at historical cost less a provision for permanent impairment in their value when considered necessary.

### g. Property, plant & equipment

Property, plant & equipment is stated at appraised replacement value, as determined in 1993, and additions in subsequent years at historical cost less accumulated depreciation and management's estimate of any required provision 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 the net book value of property, plant & equipment over its expected useful life. Depreciation is calculated using the reducing balance method for steel making assets (coking and sintering plants, blast furnaces, smelters and converters) while the straight line basis is used for all other assets. The estimated useful lives of assets are reviewed regularly and revised when necessary. The principal periods over which assets are depreciated are as follows:

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

During the year, the Company reviewed the remaining useful lives of its assets and decided that the useful economic lives of various categories could be extended. Had such a review not taken place the depreciation charge for the year would have been approximately US\$ 24 million greater.

### h. Leased assets

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

### i. Indirect taxes & contributions

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

### j. Income taxes

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can

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

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 investments in subsidiaries where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

### **k. Loans**

Loans include accrued interest at the balance sheet date. Borrowing costs are recognized as an expense in the period in which they are incurred.

### **l. Revenue recognition**

Revenues are recognized when the risks and rewards of ownership are transferred to the customer. Sales to export customers are recorded at the 'free-on-board' price of products sold or services rendered. All other sales represent the invoice price of products sold or services rendered.

### **m. Retirement benefits**

The Company voluntarily pays a charitable retirement benefit to former employees of up to Rbs 250 (US\$ 9.26 as at December 31, 1999) (1998: Rbs 180) per month, dependent on the employee's length of service. This liability is not separately funded. With effect from January 1, 1999 the company adopted the provisions of IAS 19 (revised) 'Employee benefits'. This resulted in restating the retirement benefit provision as at January 1, 1999 by US\$ 3.5 million (less deferred tax of US\$ 1.0 million). These adjustments have been recorded in the statement of operations.

The Company's net obligation in respect of this defined retirement benefit obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value. The discount rate used is the yield at 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 obligations is fully recognized in the following years' statement of operations.

### **n. Net financing expense**

Net financing expense represents interest received/paid, gains and losses on noncurrent investments, and, foreign exchange gains/losses on cash investments and loans as a result of restating Russian rouble balances in US dollars.

### **o. Earnings/(losses) per share**

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

### **p. Related parties**

The Company had no transactions with related parties other than those shown in the financial statements as group companies. The following are defined by the Company as its related parties:

- controlled entities, whether controlled directly or indirectly via intermediaries;
- investments in associated companies;

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

- shareholders and their immediate families;
- directors and officers of the Company and their immediate families, and;
- entities over which officers or directors and their immediate families have control or significant influence.

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

### **q. Provisions**

Provisions are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **r. Counter trade transactions**

The general nonpayment crisis in Russia gave rise to numerous triangular trading arrangements with customers and suppliers, in which a common element is identified and goods are shipped between the parties to a known monetary value without physical movement of cash. The related sales and purchases are recorded at their fair market values and the corresponding balances of accounts receivable and payable are offset against each other. During 1999 the level of such counter trade transactions was reduced to approximately 4% of total sales and purchases.

### **s. Deferred income**

The Company has agreements with the taxation authorities to utilize a proportion of its tax liabilities for specific social or research projects. Initially the full tax liability is created by charging the normal tax expenses to 'other taxes & contributions' in the statement of operations, then an agreed proportion of the tax liability is transferred to separate deferred income accounts in the balance sheet. The 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 for the specified projects it is transferred back to tax liabilities and paid to the taxation authorities.

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

### 4. Net sales

Sales by product were as follows:

	1999	1998	1997
Sales outside the Commonwealth of Independent States:			
Rolled steel	864,117	1,057,464	1,155,085
Semi finished products	44,928	24,846	-
Other	4,462	4,452	24,748
	<u>913,507</u>	<u>1,086,762</u>	<u>1,179,833</u>
Sales within the Commonwealth of Independent States:			
Rolled steel	525,744	750,279	1,123,302
Chemical by-products	12,736	23,875	9,595
Cast iron	4,799	8,235	205
Other	22,718	34,321	176,378
	<u>1,479,504</u>	<u>1,903,472</u>	<u>2,489,313</u>

Export sales by destination were as follows:

	1999	1998	1997
Europe, excluding Germany	158,149	198,341	73,955
South-East Asia, excluding China & Taiwan	140,417	32,842	193,476
Central and South America	136,313	124,291	140,172
United States of America	92,332	369,118	304,863
The Middle East, excluding Iran	68,864	91,005	200,739
Germany	51,464	60,670	58,513
Taiwan	38,006	12,597	35,684
Canada	36,005	38,570	8,683
China	19,768	7,245	64,271
Iran	19,126	50,659	33,976
Others	153,063	101,424	65,501
	<u>913,507</u>	<u>1,086,762</u>	<u>1,179,833</u>

The largest export customers were:

- Steel Coils Inc. accounting for US\$ 125.0 million;
- Nova Steel AG accounting for US\$ 106.8 million;
- Duferco SA accounting for US\$ 89.7 million.
- Nova Steel Group Ltd accounting for US\$ 77.1 million; and,
- Thyssen Stahl Union accounting for US\$ 60.1 million.

The largest domestic customers were:

- OAO Avtovaz accounting for US\$ 44.6 million;
- OAO GAZ accounting for US\$ 44.5 million;
- OAO Cherepovets Steel rolling mill accounting for US\$ 42.1 million;
- OAO Volgsky Pipe Factory accounting for US\$ 40.8 million; and,
- OOO 'BTS' accounting for US\$ 31.5 million.

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

### 5. Other operating income

	1999	1998	1997
Cancellation of social security and tax fines	10,461	14,243	-
Foreign exchange gain on deferred income	3,817	21,012	3,756
Amortization of deferred income	1,222	23,349	25,701
	<u>15,500</u>	<u>58,604</u>	<u>29,457</u>

Since the deferred income accounts are rouble denominated any unutilized amounts lose value in US dollar terms and give rise to the foreign exchange gain shown above.

### 6. Other operating expenses

	1999	1998	1997
Write down of projects under construction	(30,118)	(35,754)	-
Loss on disposal of property, plant & equipment	(14,807)	(8,257)	(3,652)
Foreign exchange loss on rouble cash balances	(10,364)	(2,748)	(1,825)
Charitable donations	(2,945)	(4,399)	(2,792)
Expenses on agreed social and research projects	(1,222)	(19,075)	(12,098)
Political donations	(21)	(36)	(348)
Tax penalties	-	(13,864)	(11,771)
Other	(3,497)	(1,466)	(5,377)
	<u>(62,974)</u>	<u>(85,599)</u>	<u>(37,863)</u>

The foreign exchange loss is the effect of changes in exchange rates on uninvested cash balances denominated in roubles but stated in US dollars for reporting purposes. Since the uninvested cash balances are not generating interest income there is no corresponding operating statement item against which this loss should be offset.

### 7. Nonoperating expenses

	1999	1998	1997
Social expenditure	(18,617)	(48,214)	(45,979)
Depreciation of community and infrastructure assets	(2,988)	(3,729)	(3,839)
	<u>(21,605)</u>	<u>(51,943)</u>	<u>(49,818)</u>

### 8. Net financing expense

	1999	1998	1997
Financial income:			
Interest income	1,989	6	3
Financial expenses:			
Interest expense	(25,606)	(71,223)	(46,787)
Lease interest expense	(300)	-	-
Foreign exchange gain on rouble loans	4,785	34,437	4,556
Foreign exchange gain on lease liabilities	422	-	-
Dividends received from noncurrent investments	-	7	1,052
Profit on disposal of noncurrent investments	-	165	-
Write down of noncurrent investments	(26,675)	(13,790)	(197)
	<u>(45,385)</u>	<u>(50,398)</u>	<u>(41,373)</u>

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

The foreign exchange gains are the effects of changes in exchange rates on loans and leases denominated in roubles but stated in US dollars for reporting purposes. Therefore, these gains offset the interest expense payable on the related loans and leases because the rouble based interest rates include amounts to compensate the lender for devaluation of the rouble against the US dollar.

### 9. Taxation

At December 31, 1999, 1998 and 1997 the Company had no tax loss carry forwards. The following is an analysis of the net income tax expense:

	1999	1998	1997
Current tax charge	(147,517)	(64,555)	(102,749)
Corrections to prior year's current tax charge	1,082	(2,082)	(4,727)
Deferred tax (charge)/credit	35,369	(449,337)	(41,172)
Effect of change in tax rate on deferred tax	39,740	-	-
Valuation allowance	-	171,174	41,172
Foreign exchange gain on unpaid liabilities	1,588	(4,915)	1,062
Net income tax expense	<u>(69,738)</u>	<u>(349,715)</u>	<u>(106,414)</u>

The foreign exchange gain is the effect of changes in exchange rates on unpaid tax liabilities during the period between calculation and payment. Tax liabilities are denominated in roubles and reported in US dollars, therefore, any change in the exchange rate during the credit period increases or decreases the tax liability in US dollars and consequently changes the net US dollar income tax expense.

The following is a reconciliation of the reported net income tax expense and the amount calculated by applying the statutory tax rate of 30% (First quarter 1999, and full years 1998 and 1997 - 35%) to reported profits before taxes.

	1999	1998	1997
Profits before taxes	<u>244,381</u>	<u>107,989</u>	<u>112,636</u>
Tax charge at the statutory rate	(73,314)	(37,796)	(39,423)
Non-deductible expenses	(16,562)	(56,856)	(65,221)
Tax incentives not recognized in statement of operations	19,068	76,357	8,890
First quarter of 1999 at higher tax rates	(3,379)	-	-
Effect of change in tax rate on deferred tax	39,740	-	-
Origination and reversal of temporary differences	(37,961)	(495,597)	(48,167)
Change in valuation allowance	-	171,174	41,172
Corrections to prior year's current tax charge	1,082	(2,082)	(4,727)
Foreign exchange gain on unpaid liabilities	1,588	(4,915)	1,062
Net income tax expense	<u>(69,738)</u>	<u>(349,715)</u>	<u>(106,414)</u>

# Severstal

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

The composition of net deferred tax liability, calculated at 30% (1998 and 1997: 35%), based on temporary differences arising between the Company's fiscal and reporting balance sheets, is given below. The major sources of temporary differences are: translation of nonmonetary assets using historical exchange rates; asset impairment write downs, higher depreciation charges; providing against obsolete inventories; and, writing off various expenditures as incurred instead of amortizing them over future periods.

	1999	1998	1997
Deferred tax (liabilities)/assets:			
Property, plant & equipment	(240,564)	(299,610)	143,564
Provisions	14,665	5,736	4,795
Others	22,845	15,711	22,815
	<u>(203,054)</u>	<u>(278,163)</u>	<u>171,174</u>
Valuation allowance	-	-	(171,174)
Total	<u>(203,054)</u>	<u>(278,163)</u>	<u>-----</u>

### 10. Cash and cash equivalents

	1999	1998	1997
Petty cash	37	57	136
Cash at bank	34,568	9,473	6,093
Short term deposits	69,137	520	763
Promissory notes:			
ZAO MVC Severstal	11,211	7,860	11,559
OAO Metkombank	8,832	-	7,718
OOO Severstal-Strips	7,722	969	-
OOO 'BTS'	-	620	-
ZAO Severstal-Invest	-	-	1,376
	<u>131,507</u>	<u>19,499</u>	<u>27,645</u>

Of the financial promissory notes as at December 31, 1997 US\$ 18.2 million were held by lenders as security for loans received, of which OAO Metkombank held its own US\$ 7.7 million. As at December 31, 1998 and 1999 no such security was given.

### 11. Short term investments

	1999	1998	1997
Promissory notes:			
ZAO MVC Severstal	5,193	-	-
Others	5,787	-	-
	<u>10,980</u>	<u>-----</u>	<u>-----</u>

### 12. Trade accounts receivable

	1999	1998	1997
Customers	40,430	40,674	117,080
Allowance for doubtful accounts	(12,716)	(16,681)	(89,385)
	<u>27,714</u>	<u>23,993</u>	<u>27,695</u>

# Severstal

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

### 13. Inventories

	1999	1998	1997
Raw materials	72,498	68,514	198,345
Work-in-progress	24,711	26,712	69,704
Finished goods	39,899	80,154	117,716
Provision for obsolescence	(14,200)	(13,461)	(15,996)
	<u>122,908</u>	<u>161,919</u>	<u>369,769</u>

### 14. Amounts receivable from group companies

	1999	1998	1997
OA0 Cherepovets steel rolling mill	4,693	3,166	38
ZAO Severstal Invest	4,486	2,598	41,551
OA0 Olkon	3,898	446	569
OOO BTS	3,782	16,124	-
AO Severstal-Lat	3,534	5,593	-
OA0 Karelsky Okatysh	3,236	1,029	1,622
ZAO Trade House Severstal Invest	1,301	1,551	5,201
OOO Severstal Trans	674	4,845	-
OA0 Stalmag (Krasnoyarsk)	16	2,023	7,009
OOO Severstal Strips	-	9,676	-
Others	1,571	2,687	1,282
	<u>27,191</u>	<u>49,738</u>	<u>57,272</u>

These balances arise from sales made on an arm's length basis that reflect prevailing market conditions and prices.

Sales to group companies were as follows:

	1999	1998	1997
OA0 Cherepovets steel rolling mill	42,093	58,349	6,124
OOO BTS	31,531	147,050	-
AO Severstal-Lat	26,740	7,817	-
OOO Severstal-Trans	14,110	-	-
ZAO Severstal- Invest	13,386	40,830	559,974
OA0 Karelsky Okatysh	11,228	27,647	25,823
ZAO Trade House Severstal Invest	8,088	19,259	29,142
OA0 Olkon	4,435	14,939	14,566
OOO Severstal Strips	331	43,139	-
Others	12,108	23,358	2,867
	<u>164,050</u>	<u>382,388</u>	<u>638,496</u>

### 15. Other current assets

	1999	1998	1997
Advances paid to suppliers	43,565	15,207	38,221
Other taxes and social security prepaid	8,916	-	31,281
Other accounts receivable	6,865	18,427	31,517
Prepayments	1,348	638	177
	<u>60,694</u>	<u>34,272</u>	<u>101,196</u>

## Severstal

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

#### 16. Property, plant & equipment

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

	<u>Buildings &amp; constructions</u>	<u>Plant &amp; machinery</u>	<u>Other productive assets</u>	<u>Total productive assets</u>	<u>Community &amp; infrastructure assets</u>	<u>Construction -in-progress</u>	<u>Total assets</u>
<b>Replacement or historic cost:</b>							
December 31, 1996	2,922,131	2,418,627	537,400	5,878,158	86,582	268,895	6,233,635
Additions	1,595	-	5,154	6,749	7,401	89,607	103,757
Disposals	(386)	(35,055)	(7,008)	(42,449)	(1,777)	(7,223)	(51,449)
Transfer to investments	(12,635)	(10,023)	(2,338)	(24,996)	(283)	(1,744)	(27,023)
Transfers	37,977	54,600	14,478	107,055	1,366	(108,421)	-
December 31, 1997	<u>2,948,682</u>	<u>2,428,149</u>	<u>547,686</u>	<u>5,924,517</u>	<u>93,289</u>	<u>241,114</u>	<u>6,258,920</u>
Additions	-	-	-	-	-	62,189	62,189
Disposals	(2,141)	(30,881)	(8,628)	(41,650)	(1,435)	(5,560)	(48,645)
Transfer to investments	-	-	-	-	(18,202)	-	(18,202)
Transfer to materials	-	-	-	-	-	(46,184)	(46,184)
Asset write downs	-	-	-	-	-	(35,754)	(35,754)
Transfers	21,577	28,492	5,279	55,348	562	(55,910)	-
December 31, 1998	<u>2,968,118</u>	<u>2,425,760</u>	<u>544,337</u>	<u>5,938,215</u>	<u>74,214</u>	<u>159,895</u>	<u>6,172,324</u>
Reclassifications	(3,577)	1,814	(339)	(2,102)	2,102	-	-
Additions:							
External	-	-	-	-	-	44,935	44,935
From group companie	196	2,631	-	2,827	-	-	2,827
From investments	1,099	348	2,253	3,700	-	-	3,700
Disposals							
External	(1,454)	(23,254)	(4,536)	(29,244)	(3,430)	(10,539)	(43,213)
To group companies	(1,761)	(9,750)	(2,253)	(13,764)	-	-	(13,764)
Transfer to investments	(12,144)	(3,348)	(2,087)	(17,579)	-	-	(17,579)
Transfer to materials	-	-	-	-	-	(4,528)	(4,528)
Asset write downs	-	-	-	-	-	(30,118)	(30,118)
Transfers	21,260	46,489	18,200	85,949	6,295	(92,244)	-
December 31, 1999	<u>2,971,737</u>	<u>2,440,690</u>	<u>555,575</u>	<u>5,968,002</u>	<u>79,181</u>	<u>67,401</u>	<u>6,114,584</u>
<b>Accumulated depreciation:</b>							
December 31, 1996	2,121,122	2,153,071	423,019	4,697,212	28,423		4,725,635
Depreciation expense	66,207	57,194	18,968	142,369	3,839		146,208
Disposals	(2,751)	(25,925)	(7,939)	(36,615)	(1,745)		(38,360)
Transfer to investments	(10,270)	(6,598)	(1,407)	(18,275)	(195)		(18,470)
December 31, 1997	<u>2,174,308</u>	<u>2,177,742</u>	<u>432,641</u>	<u>4,784,691</u>	<u>30,322</u>		<u>4,815,013</u>
Depreciation expense	65,040	60,806	16,619	142,465	3,729		146,194
Disposals	(195)	(30,770)	(6,071)	(37,036)	(792)		(37,828)
Transfer to investments	-	-	-	-	(2,434)		(2,434)
December 31, 1998	<u>2,239,153</u>	<u>2,207,778</u>	<u>443,189</u>	<u>4,890,120</u>	<u>30,825</u>		<u>4,920,945</u>
Reclassifications	(1,722)	1,221	(325)	(826)	826		-
Depreciation expense	60,497	43,469	15,735	119,701	2,988		122,689
Disposals							
External	(1,454)	(20,849)	(4,766)	(27,069)	(830)		(27,899)
To group companies	(16)	(2,305)	-	(2,321)	-		(2,321)
Transfer to investments	(7,846)	(3,070)	(858)	(11,774)	-		(11,774)
December 31, 1999	<u>2,288,612</u>	<u>2,226,244</u>	<u>452,975</u>	<u>4,967,831</u>	<u>33,809</u>		<u>5,001,640</u>
<b>Net book values:</b>							
December 31, 1997	<u>774,374</u>	<u>250,407</u>	<u>115,045</u>	<u>1,139,826</u>	<u>62,967</u>	<u>241,114</u>	<u>1,443,907</u>
December 31, 1998	<u>728,965</u>	<u>217,982</u>	<u>101,148</u>	<u>1,048,095</u>	<u>43,389</u>	<u>159,895</u>	<u>1,251,379</u>
December 31, 1999	<u>683,125</u>	<u>214,446</u>	<u>102,600</u>	<u>1,000,171</u>	<u>45,372</u>	<u>67,401</u>	<u>1,112,944</u>

The company has no assets held under noncancelable leases, and the following assets, by category, held under capital leases at December 31, 1999

Cost	196	2,631	-	2,827	-	-	2,827
Accumulated deprecia	(17)	(590)	-	(607)	-	-	(607)
Net book value	<u>179</u>	<u>2,041</u>	<u>-</u>	<u>2,220</u>	<u>-</u>	<u>-</u>	<u>2,220</u>

Other productive assets includes: Transmission equipment, transport equipment, cattle and tools.

The Russian financial crisis of 1998 precipitated a review of the carrying value of the Company's assets, the result of which was the termination of various projects under construction totaling US\$ 30.1 million (1998: US\$ 35.7 million) in the iron & steel segment.

## Severstal

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

#### 17. Investments

The company's principal investments are as follows:

Name	Principal activity	Share type	Percentage holding	1999 Net	1998 Net	1997 Net
<b>Subsidiaries</b>						
OOO Severstal-Holding	Investments	Ordinary	89.94%	32,626	38,687	38,419
OAo Hotel Sheksna	Recreation	Ordinary	100.00%	11,368	11,510	-
OAo Metkombank	Banking	Ordinary	42.65%	10,762	10,762	10,369
Severstal Trade GmbH	Distribution	Ordinary	100.00%	1,943	-	-
ZAO Zemledelets-Severstal	Farming	Ordinary	29.16%	889	889	889
OAo Vologdapromresurs	Geological surveys	Ordinary	25.80%	474	474	474
OOO Promjilstroy	Construction	Ordinary	100.00%	-	5,593	14
OOO Oktyabrsky	Farming	Ordinary	100.00%	-	169	-
OOO Metakom	Communications	Ordinary	100.00%	-	129	-
OAo SPU Factory	Manufacturing	Ordinary	36.50%	-	1,037	1,037
<b>Others</b>						
OOO Ramenskoe	Farming	Ordinary	23.61%	-	219	219
AKB Metal-Invest-Bank	Banking	Ordinary	1.25%	-	133	531
Others individually less than US\$ 50,000 each				137	102	72
<b>Joint Ventures</b>						
OAo Olkon	Mining			-	3,395	2,666
<b>Investment programs</b>						
OAo ETM	Engineering			-	-	7,200
OAo SPU factory	Engineering			-	-	2,552
OAo NIIIEIR	Research institute			-	-	1,392
<b>Long term loans</b>						
OAo NIIIEIR	Research institute			72	337	328
OAo Ustuzhenskoye	Farming			-	599	559
OAo Stalmag	Mining			-	250	61
Others individually less than US\$ 50,000 each				-	29	14
				<u>58,271</u>	<u>74,314</u>	<u>66,796</u>

As at December 31, 1999 the Company had no further commitment (1998: US\$ 1.2 million) to invest in the joint venture with OAo Olkon.

Those companies shown as subsidiaries, in which the Company directly holds less than 50% of the share capital are controlled through indirect shareholdings within OOO Severstal-Holding.

# Severstal

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

### 18. Amounts payable to group companies

	1999	1998	1997
ZAO MVC Severstal	9,383	11,699	112,795
ZAO Severstal-Invest	8,660	386	52
OOO Severstal Trans	1,375	4,123	21,268
AO Severstal-Lat	1,019	696	-
OAO Metkombank	978	1,141	-
OOO Firma Stoik	476	1,376	-
OAO Cherepovets Steel Rolling Mill	346	151	505
OAO Domnaremont	307	1,314	3,706
OOO Promjilstroy	278	225	-
ZAO Metal	228	5	4,117
OAO Olkon	21	1,719	1,080
OAO Karelsky Okatysh	11	3,147	12,788
OOO Severstal-Strips	-	297	-
Others	635	348	806
	<u>23,717</u>	<u>26,627</u>	<u>157,117</u>

These balances arise from purchases made on an arm's length basis that reflect prevailing market conditions and prices. Purchases from group companies were as follows:

	1999	1998	1997
OOO Severstal Trans	75,865	239,961	156,352
ZAO Severstal-Invest	58,125	24,409	44,500
OOO Torgmet	35,053	-	-
ZAO Metal	22,339	33,470	16,801
OAO Cherepovets Steel Rolling Mill	6,308	5,094	5,444
OOO Firma Stoik	2,466	-	-
OAO Domnaremont	2,207	5,666	10,453
OOO Promjilstroy	1,365	-	-
OAO Karelsky Okatysh	59	68,862	104,321
OAO Olkon	59	40,203	106,563
OOO Severstal Strips	-	83,745	-
OOO Stilbrok MP	-	21,509	-
Others	3,990	35,853	10,790
	<u>207,836</u>	<u>558,772</u>	<u>455,224</u>

Services rendered by group companies were as follows:

	1999	1998	1997
OAO Metkombank:			
Interest charged on loans	1,781	3,785	15,730
Bank services	2,370	5,780	4,705
OAO Sheksna Insurance Company	8,901	4,994	7,006
ZAO MVC Severstal - commissions	48	219	478
OOO Severstal-Holding – lease commissions	16	-	-
	<u>13,116</u>	<u>14,778</u>	<u>27,919</u>

### 19. Other current liabilities

	1999	1998	1997
Advances received from customers	57,170	61,100	102,450
Other accounts payable	23,961	22,210	44,011
Amounts payable to employees	4,192	12,026	22,090
Accrued expenses	2,600	27,253	51,399
	<u>87,923</u>	<u>122,589</u>	<u>219,950</u>

# Severstal

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

### 20. Loans

These comprise loans from various banks. Loans denominated in roubles carry variable market interest rates and the average borrowing costs of short term rouble loans were estimated (by eliminating the US dollar foreign exchange gains in the year from the average nominal borrowing costs) in net US dollar terms at 24.7% per annum (1998: -31.4% per annum; 1997: 22.2% per annum). Loans denominated in other currencies carry fixed interest rates of Libor plus either 4.5% or 5% per annum. Short term loans are repayable or renewable either quarterly or annually and are secured by floating charges over inventories or export receivables. Long term loans are secured by charges over specific items of plant and equipment.

	1999	1998	1997
OAo Metkombank	1,981	1,879	10,366
International banks	2,950	102,315	155,593
Other Russian banks	30,681	25,600	78,394
Accrued interest	1,781	3,242	5,173
	<u>37,393</u>	<u>133,036</u>	<u>249,526</u>

Total debt is denominated in the following currencies:

	1999	1998	1997
Russian roubles	22,867	14,867	69,975
US dollars	14,526	118,169	164,562
German Marks	-	-	14,989
	<u>37,393</u>	<u>133,036</u>	<u>249,526</u>

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

	1999	1998	1997
Less than one year	37,083	132,988	249,359
Between one and two years	310	48	167
	<u>37,393</u>	<u>133,036</u>	<u>249,526</u>

### 21. Lease liabilities

Finance lease liabilities as at December 31, 1999 are payable to OOO Severstal-Holding as follows:

	Payments	Interest	Principal
Less than one year	821	92	729
Between one and five years	2,127	236	1,891
More than five years	45	4	41
	<u>2,993</u>	<u>332</u>	<u>2,661</u>

As at December 31, 1998 and 1997 there were no finance lease liabilities. Under the terms of the lease agreements, no contingent rents are payable.

# Severstal

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

### 22. Other noncurrent liabilities

	1999	1998	1997
Provision for retirement benefits	<u>26,496</u>	<u>33,800</u>	<u>115,922</u>

The assumptions used to calculate the retirement benefit liabilities were as follows:

	1999	1998	1997
Discount rate at the balance sheet date	6.00%	6.00%	7.00%
Future retirement benefit increases	0.00%	0.00%	2.00%

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

	1999	1998	1997
Components of the unfunded net defined retirement benefit obligation:			
Retirees	16,000	23,091	73,153
Other participants:			
- Vested	3,900	3,176	24,635
- Non vested	7,100	7,533	18,134
	<u>27,000</u>	<u>33,800</u>	<u>115,922</u>
Movements in the provision for retirement benefits:			
Liability at beginning of year as previously reported	33,800	115,922	121,732
Transitional liability	3,505	-	
Net liability at beginning of year restated	<u>37,305</u>	<u>115,922</u>	<u>121,732</u>
Payments made in the year	(1,900)	(5,100)	(6,400)
Expenses recognized in the statement of operations:			
Interest cost	2,028	5,682	5,967
Service cost	518	3,266	6,324
Actuarial gains recognized	(2,681)	(3,505)	(3,531)
Foreign exchange gain	(8,774)	(82,465)	(8,170)
Closing balance	<u>26,496</u>	<u>33,800</u>	<u>115,922</u>
Cumulative unrecognized actuarial losses	<u>504</u>	-	-

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

The Company's retirement benefit liabilities have not been valued by an independent actuary.

# Severstal

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

### 23. Shareholders' equity

The Company's authorized capital, according to its Charter Document, at December 31, 1999 comprised 22,074,192 ordinary shares with a nominal value of Rbs 0.25 each. This nominal amount was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions. There have been no changes in the number of shares outstanding since September 24, 1993. All shares carry equal voting and distribution rights.

The maximum dividend payable is restricted to the total accumulated retained earnings of the Company determined according to Russian law. As of the balance sheet date, reserves available for distribution were US\$ 252.9 million (1998: nil).

### 24. Commitments and contingencies

#### a. Provisions for litigation, tax and other liabilities

The Company is subject to various claims from customers and suppliers totaling US\$ 8.5 million (1998: US\$ 3.2 million) and the tax authorities totaling US\$ 16.9 million (1998: US\$ 18.2 million). Based on experience in resolving such matters, management believes that it has adequately provided for any liabilities in the accompanying financial statements.

#### b. Long term purchase and sales contracts

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

#### c. Capital commitments

At December 31, 1999 the Company had capital commitments of US\$ 10.2 million, through its capital construction department, mainly for manufacturing plant.

#### d. Insurance

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

### 25. Financial instruments

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

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

# Severstal

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

The company incurs currency risk on transactions and balances not denominated in the reporting currency. In respect of such currency risk, the Company ensures that its net exposure is kept to an acceptable level by balancing its monetary assets and liabilities denominated in currencies other than the reporting currency.

It is management's opinion that the fair values of the Company's financial assets and liabilities as at December 31, 1999, 1998 and 1997 approximate their book values.

### 26. Allocation of foreign exchange gains and losses

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

	1999	1998	1997
Selling general & administration expense	4,424	39,119	512
Other taxes and contributions	2,656	18,164	275
Other operating income	3,817	21,012	3,756
Other operating expenses	(10,364)	(2,748)	(1,825)
Net financing expenses	5,207	34,437	4,556
Net income tax expense	1,588	(4,915)	1,062
	<u>7,328</u>	<u>105,069</u>	<u>8,336</u>

The above gains and losses were generated from the following balance sheet accounts:

	1999	1998	1997
Cash and cash equivalents	(10,364)	(2,748)	(1,825)
VAT recoverable	(9,706)	(95,898)	(6,717)
Other assets	(3,369)	(1,224)	(5,923)
Deferred income	3,817	21,012	3,756
Other taxes and social security	2,656	18,164	275
Current taxes	1,588	(4,915)	1,062
Loans	4,785	34,437	4,556
Lease liabilities	422	-	-
Other current liabilities	8,725	53,776	4,982
Retirement benefit liabilities	8,774	82,465	8,170
	<u>7,328</u>	<u>105,069</u>	<u>8,336</u>

### 27. Subsequent events

In April 2000, the Company purchased the assets of the heavy plate workshop of OAO Izhorsky Zavod in St. Petersburg, enabling it to make wide plates for large diameter steel pipes. No operations will be discontinued as a result of this purchase.

# Severstal

## Notes to the parent company financial statements

*(Amounts expressed in thousands of US dollars)*

### 28. Segmental information

Apart from a sales office in Austria all assets and liabilities are held in Russia.

	<u>Iron &amp; steel</u>	<u>Farming</u>	<u>Other</u>	<u>Social activities</u>	<u>Total</u>
<b>Year ended December 31, 1999</b>					
Total assets	1,531,300	-	5,178	36,271	1,572,749
External capital expenditure	48,260	352	23	-	48,635
Depreciation expense	118,722	507	472	2,988	122,689
Net sales	1,471,474	577	6,486	967	1,479,504
Profit/(loss) from operations	314,632	(2,843)	(436)	18	311,371
Profit/(loss) before income taxes	247,642	(2,843)	(436)	18	244,381
<b>Year ended December 31, 1998</b>					
Total assets	1,605,856	10,826	5,568	35,113	1,657,363
External capital expenditure	61,016	899	274	-	62,189
Depreciation expense	141,492	557	416	3,729	146,194
Net sales	1,883,759	4,048	13,436	2,229	1,903,472
Profit/(loss) from operations	216,504	(4,857)	(1,823)	506	210,330
Profit/(loss) before income taxes	114,163	(4,857)	(1,823)	506	107,989
<b>Year ended December 31, 1997</b>					
Total assets	2,149,014	14,713	7,999	58,580	2,230,306
External capital expenditure	95,810	546	-	7,401	103,757
Depreciation expense	141,547	410	412	3,839	146,208
Net sales	2,464,895	5,313	18,602	503	2,489,313
Profit/(loss) from operations	206,554	1,337	(143)	(3,921)	203,827
Profit/(loss) before income taxes	115,363	1,337	(143)	(3,921)	112,636

The farming assets were spun off into a separate legal entity, which is a wholly owned subsidiary, during December 1999.

Transactions between the above segments are immaterial.