

SEVERSTAL

Condensed consolidated financial statements
for the six months ended June 30, 2004

Severstal

Condensed consolidated financial statements for the six months ended June 30, 2004

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Condensed consolidated balance sheet
June 30, 2004

(Tabular amounts expressed in millions of roubles)

	June 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	35,497	13,657
Reserves at Central Bank of Russia	371	390
Banking assets	5,451	3,463
Trade accounts receivable	9,752	4,889
Inventories	20,024	9,993
Amounts receivable from related parties	2,344	1,516
VAT recoverable	2,890	2,450
Income tax recoverable	381	65
Other current assets	5,641	2,086
Lease receivables	2	6
Financial assets	10,574	7,543
Total current assets	92,927	46,058
Non-current assets:		
Amounts receivable from related parties	4,437	5,344
Lease receivables	-	1
Financial assets	7,610	4,626
Property, plant and equipment	61,642	57,166
Intangible assets	31	34
Total non-current assets	73,720	67,171
Total assets	166,647	113,229
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	6,733	3,170
Bank customer accounts	1,258	1,499
Amounts payable to related parties	1,791	1,059
Income taxes payable	2,813	175
Other taxes and social security payable	900	505
Deferred income	44	62
Debt finance	3,669	5,324
Lease liabilities	15	7
Dividends payable	307	1,163
Other current liabilities	5,022	3,730
Total current liabilities	22,552	16,694
Non-current liabilities:		
Debt finance	40,837	10,100
Lease liabilities	11	13
Deferred tax liabilities	7,629	7,143
Other non-current liabilities	1,316	1,171
Total non-current liabilities	49,793	18,427
Minority interest	1,929	1,612
Shareholders' equity:		
Share capital	97,528	97,528
Treasury shares	(3)	-
Revaluation reserve	20,076	21,457
Accumulated deficit	(25,228)	(42,489)
Total shareholders' equity	92,373	76,496
Total liabilities and shareholders' equity	166,647	113,229

Condensed consolidated statement of operations
Six months ended June 30, 2004

(Tabular amounts expressed in millions of roubles, except shares and earnings per share)

	Six months June 30, 2004	Six months June 30, 2003
	<u> </u>	<u> </u>
Sales		
Sales - external	74,030	42,786
Sales - to related parties	5,288	2,488
	<u>79,318</u>	<u>45,274</u>
Cost of sales	(48,346)	(27,599)
	<u>30,972</u>	<u>17,675</u>
Gross profit		
Indirect taxes and contributions	(121)	(353)
Selling, general and administration expenses	(3,683)	(1,694)
Distribution expenses	(5,569)	(4,666)
Net other operating expenses	(756)	153
Net expenses with insurance operations	(291)	(321)
Net income from bank lending operations	123	15
Net income/(expenses) from securities operations	542	404
	<u>21,217</u>	<u>11,213</u>
Profit from operations		
Non-operating expenses	(309)	(475)
Impairment of property, plant and equipment	272	-
Impairment of goodwill	-	-
Write off of negative goodwill	2,128	77
Share of associates losses	108	-
	<u>23,416</u>	<u>10,815</u>
Profit before financing and taxation		
Net financing (expense)/income	(1,283)	(45)
	<u>22,133</u>	<u>10,770</u>
Profit before income tax		
Income tax expense	(4,750)	(2,582)
	<u>17,383</u>	<u>8,188</u>
Profit/(loss) for the year		
Profit attributable to minorities	(173)	(47)
	<u>17,210</u>	<u>8,141</u>
Profit/(loss) attributable to shareholders		
Weighted average number of shares outstanding during the year	<u>22,074,192</u>	<u>22,074,192</u>
Basic and diluted earnings per share (roubles)	<u>779.64</u>	<u>368.80</u>

Condensed consolidated statement of cash flows
Six months ended June 30, 2004
(Tabular amounts expressed in millions of roubles)

	Six months June 30, 2004	Six months June 30, 2003
Operating activities:		
Profit before financing and taxation	23,416	10,815
Adjustments to reconcile profit to cash provided by operating activities:		
Depreciation of property, plant and equipment	3,295	3,278
Amortization of intangible assets	3	2
Asset impairment	(272)	-
Negative goodwill written off	(2,128)	(77)
Remeasurement (gain)/loss	-	(961)
Loss on disposal of property, plant and equipment	474	125
Loss on disposal of financial assets	143	(3)
Adjustment of financial assets to fair value	(390)	(182)
Share of associates income	(108)	-
Bank loan loss provisions	22	26
Provision for doubtful accounts receivable	98	3
Changes in operating assets and liabilities:		
Reserves at Central Bank of Russia	19	(114)
Banking assets	(2,010)	(1,668)
Trade accounts receivable	(3,048)	(828)
Amounts receivable from related parties	115	(5,089)
VAT recoverable	(438)	(130)
Inventories	(4,303)	(256)
Lease receivables	5	6
Other current assets	(2,424)	(192)
Short term bank deposits	(2,282)	(111)
Trade accounts payable	2,251	652
Bank customer accounts	(241)	270
Amounts payable to related parties	231	(52)
Other taxes and social security payable	21	570
Deferred income	(18)	(21)
Other current liabilities	517	866
Other non-current liabilities	145	153
Cash generated from operations	13,093	7,082
Interest received (excluding banking operations)	499	306
Interest paid (excluding banking operations)	(849)	(305)
Income tax paid	(3,209)	(3,153)
Net cash provided from operating activities	9,534	3,930
Investing activities:		
Additions to property, plant and equipment	(6,023)	(2,392)
Additions to financial assets	(1,651)	(10,180)
Buy out of minority interests	-	(12)
Net cash outflow on acquisition of:		
Severstal North America Inc	(6,985)	-
OAO Fingo	(50)	-
Purchase of treasury shares	(3)	-
Proceeds from disposal of property, plant and equipment	221	67
Proceeds from disposal of financial assets	485	8,595
Cash used for investing activities	(14,006)	(3,922)
Financing activities:		
Proceeds from debt finance	38,102	4,682
Repayment of debt finance	(9,778)	(2,483)
Repayment of lease finance	(15)	3
Parent company dividends paid	(2,318)	(1,026)
Minority capital contributions	21	-
Dividends from associates	166	-
Cash provided from financing activities	26,178	1,176
Effect of exchange rates on cash and cash equivalents	134	224
Net (decrease)/increase in cash and cash equivalents	21,840	1,408
Cash and cash equivalents at beginning of year	13,657	5,579
Cash and cash equivalents at end of year	35,497	6,987

Condensed consolidated statement of changes in shareholders' equity
Six months ended June 30, 2004

(Tabular amounts expressed in millions of roubles)

	<u>Share capital</u>	<u>Additional capital</u>	<u>Treasury shares</u>	<u>Revaluation reserve</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balances at December 31, 2002	97,528	4	-	24,508	(52,362)	69,678
Dividend	-	-	-	-	(1,014)	(1,014)
Realization of revaluation reserve:						
Disposals	-	-	-	(83)	83	-
Depreciation	-	-	-	(1,834)	1,834	-
Deferred tax on realization	-	-	-	456	(456)	-
Loss attributable to shareholders	-	-	-	-	8,141	8,141
Balances at June 30, 2003	<u>97,528</u>	<u>4</u>	<u>-</u>	<u>23,047</u>	<u>(43,774)</u>	<u>76,805</u>
Balances at December 31, 2003	97,528	-	-	21,457	(42,489)	76,496
Dividends	-	-	-	-	(1,462)	(1,462)
Purchase of treasury shares	-	-	(3)	-	0	(3)
Realization of revaluation reserve:						
Disposals	-	-	-	(73)	73	-
Depreciation	-	-	-	(1,743)	1,743	-
Deferred tax on realization	-	-	-	435	(435)	-
Foreign exchange differences	-	-	-	-	132	132
Profit attributable to shareholders	-	-	-	-	17,210	17,210
Balances at June 30, 2004	<u>97,528</u>	<u>-</u>	<u>-</u>	<u>20,076</u>	<u>(25,228)</u>	<u>92,373</u>

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Notes to the condensed consolidated financial statements for the six months ended June 30, 2003

(Tabular amounts expressed in millions of roubles)

1. Commentary on results

The results of the six months ended June 30, 2004 reflect (i) the continued high steel prices around the world arising not least from high Chinese demand; and (ii) the acquisition of the steel making assets of the Rouge Steel Company Inc. These assets contributed Rbs 11,444 million of sales and Rbs 154 million of net profits to the Group result in the five months following their acquisition.

The consequences of the above two items (high world steel prices and former Rouge assets) essentially explain all the changes in the results between 2004 and 2003.

2. Accounting policies

These consolidated financial statements for the OAO Severstal Group ('the Group') are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and use the accounting conventions and accounting policies as were used to prepare the Group's consolidated financial statements for the year ended December 31, 2003 except for the functional and presentation currency.

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

As a result of this change in the Parent Company's functional currency, these condensed consolidated financial statements have been presented in roubles and the date of transition to rouble reporting has been set at January 1, 2004. The comparative information contained in these financial statements has been converted into roubles by multiplying financial information presented previously in US dollars by the official Central Bank of Russia exchange rate on January 1, 2004 of Rbs 29.4545 per US\$ 1.00.

3. Seasonality

There are no material seasonal effects in the business activities of the Group.

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Notes to the condensed consolidated financial statements for the six months ended June 30, 2003 (Tabular amounts expressed in millions of roubles)

4. Related party balances

	June 30, 2004	December 31, 2003
Amounts receivable from related parties:		
Advances paid	423	390
Trade accounts receivable	1,892	1,111
Other receivables	4,466	5,359
	<u>6,781</u>	<u>6,860</u>
Maturity analysis:		
within one year	2,344	1,516
after more than one year	4,437	5,344
	<u>6,781</u>	<u>6,860</u>
Banking assets include loans to related party customers of	711	1,225
Current financial assets include the following balances with related parties:		
Held to maturity securities – bank deposits	1,536	641
Originated loans	634	285
Trading securities – promissory notes	339	537
Non-current financial assets include the following balances with related parties:		
Originated loans	3190	3,047
Held-to-maturity securities – promissory notes	81	2
Amounts payable to related parties:		
Advances received	127	50
Trade accounts payable	1,600	696
Other accounts payable	12	297
Bank demand deposits	52	14
Bank term deposits	-	2
	<u>1,791</u>	<u>1,059</u>
Debt finance includes loans received from related parties of	407	184

5. Related party transactions

	Six months June 30, 2004	Six months June 30, 2003
Income:		
Sales	5,288	2,488
Insurance premiums	50	28
Banking income	78	26
Expenditure:		
Purchases – non capital	11,279	6,848
Purchases – capital	28	17
Bank expenses	-	-
Insurance claims	21	11

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Notes to the condensed consolidated financial statements for the six months ended June 30, 2003

(Tabular amounts expressed in millions of roubles)

6. Commitments and Contingents

The Group has provided for all significant contingent liabilities which are probable of assertion and success.

As at June 30, 2004 the Group had capital commitments of Rbs 8,479 million (December 31, 2003: Rbs 6,129 million).

At June 30, 2004 the Group had given Rbs 5,416 million (December 31, 2003: Rbs 4,521 million) of guarantees for bank borrowings, of which Rbs 3,913 million (December 31, 2003: Rbs 1,517 million) were in respect of related parties. Of these guarantees, all except one for Rbs 1,415 million (December 31, 2003: Rbs 221 million), mature within one year. The Rbs 1,415 million (December 31, 2003: Rbs 221 million) guarantee to a bank matures as the loan is repaid in installments up to 2011.

7. Subsidiary and associated companies

On January 30, 2004 the Group acquired the assets and business of the Rouge Steel Company Inc, through its US subsidiary Severstal North America Inc, for Rbs 7,565 million.

During January 2004, the Group acquired 30% of the share capital of OAO Fingo for Rbs 56 million, with an obligation to purchase an additional 23% of the outstanding share capital.

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

Cash and cash equivalents	586
Trade accounts receivable	2,026
Amounts receivable from related parties	36
VAT recoverable	2
Inventories	5,728
Other current assets	823
Financial assets	2,447
Property, plant and equipment	2,177
Trade accounts payable	(1,314)
Amounts payable to related parties	(501)
Other taxes and social security payable	(66)
Other current liabilities	(775)
Debt finance	(14)
Lease liabilities	(16)
Deferred tax liabilities	(1,267)
Net identifiable assets and liabilities	9,872
Minority interest	(123)
Goodwill on acquisition	(2,128)
Consideration satisfied in cash/dividend payout	<u>7,621</u>
Net cash outflow	<u>7,035</u>

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Notes to the condensed consolidated financial statements for the six months ended June 30, 2003

(Tabular amounts expressed in millions of roubles)

In December 2003, the Group acquired a 100% controlling interest in the share capital of ZAO Firma Stoik, from a company under common shareholder control. In accordance with the Group's accounting policies for such transactions, the comparative financial information in these condensed consolidated financial statements has been restated to include the results of ZAO Firma Stoik.

8. Segmental information – Statement of operations

	net Sales	Profit before financing and tax
Six months ended June 30, 2004:		
Steel segment	76,260	22,497
Metalware segment	7,345	624
Financing segment	-	34
Insurance segment	-	177
Inter segmental transactions	(4,287)	84
Total	<u>76,260</u>	<u>23,416</u>
Six months ended June 30, 2003:		
Steel segment	42,178	10,389
Metalware segment	3,280	10
Financing segment	-	52
Insurance segment	-	227
Inter segmental transactions	(184)	137
Total	<u>45,274</u>	<u>10,815</u>

9. Post balance sheet events

During July 2004 the Group acquired an additional 10.12% of the ordinary share capital of OAO Orlovsky Steel Rolling Mill ('OSPAZ') for Rbs 135 million, thereby increasing the Group's total shareholding in OSPAZ to 29.12%.

On September 14, 2004 Severstal's shareholders approved an interim dividend for the first half-year of 2004 of Rbs 100.00 per share. On October 22, 2004 the Board of Directors recommended the payment of an interim dividend for the third quarter of 2004 of Rbs 230.00 per share.

On October 6, 2004 Severstal applied for regulatory approval of share split (1 to 25) following the authorization given by Severstal's shareholders on May 21, 2004.

On October 12, 2004 ZAO Severstal drew down the remaining US\$ 25 million of its US\$ 90 million credit facility with European Bank for Reconstruction and Development.

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